Supreme Court, U.S.
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No. 01-176

In The

Supreme Court of the United States

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA,

Petitioner,

v.

TEXTRON FINANCIAL CORPORATION,

Respondent.

On Petition For Writ Of Certiorari To The California Court Of Appeal, Fourth Appellate District

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Where a state appellate rule provides that a state supreme court will not consider an issue omitted from an intermediate court's opinion unless brought to the attention of the intermediate court in a petition for rehearing, and where a party did not assert in such a petition that the intermediate court failed to explicitly mention one of the "guideposts" in reviewing a punitive damages award under *BMW of North American v. Gore*, 517 U.S. 559 (1996), has the party waived that issue when it unsuccessfully seeks review in the state supreme court and then seeks certiorari in this Court?

2. Where a state trial court reduces a punitive damages award from $10 million to $1.7 million, and where the defendant attempts to defend such a remittitur in a reviewing court by arguing that the trial court did not abuse its discretion, has the defendant invited the reviewing court to affirm the award as remitted under an abuse of discretion standard, thus precluding an argument in this Court that a de novo standard should be applied?

3. Where a state reviewing court discusses and applies both state and federal authorities and concludes that a punitive damages award "is permissible under both state and federal law," are there grounds to grant certiorari to review such an award?

4. Assuming that the California Court of Appeal in this case applied an abuse of discretion standard in reviewing the punitive damages award and assuming

QUESTIONS PRESENTED – Continued

that petitioner did not waive the issue or invite the error, would application of a different standard of review result in a different judgment?

5. Assuming the California Co of Appeal failed to independently review federal law standards pertaining to punitive damages, is reinstatement of the jury's original $10 million award required as a matter of constitutional law?

TEXTRON'S RULE 29.6 STATEMENT

Textron Financial Corporation is a wholly-owned subsidiary of Textron, Inc.

TABLE OF CONTENTS

Page

QUESTIONS PRESENTED i

TEXTRON'S RULE 29.6 STATEMENT iii

TABLE OF CONTENTS iv

TABLE OF AUTHORITIES vi

INTRODUCTION 1

FACTUAL BACKGROUND 2

POST-TRIAL PROCEDURAL HISTORY 10

REASONS WHY NATIONAL UNION'S PETITION SHOULD BE DENIED 12

1. NATIONAL UNION WAIVED THE ONE ARGUMENT ADVANCED IN ITS PETITION 12

2. NATIONAL UNION INVITED ANY PERCEIVED ERROR 14

3. THE CALIFORNIA COURT OF APPEAL INDEPENDENTLY REVIEWED FEDERAL CONSTITUTIONAL PUNITIVE DAMAGES STANDARDS .. 15

   A. California Punitive Damages Review Involves An Assessment Of Whether The Jury Acted Based On Passion And Prejudice 17

   B. Federal Punitive Damages Law Focused On Adequate Notice To The Defendant 19

   C. The California Court of Appeal's Opinion .. 20

TABLE OF CONTENTS – Continued

Page

4. EVEN IF THE COURT OF APPEAL ANALYZED FEDERAL LAW PERTAINING TO PUNITIVE DAMAGES UNDER AN ABUSE OF DISCRETION STANDARD, THE ALREADY SUBSTANTIALLY REDUCED $1.7 MILLION PUNITIVE DAMAGES AWARD WOULD NOT BE INVALID 23

5. IF THERE WAS NO INDEPENDENT REVIEW, REINSTATEMENT OF THE JURY'S $10 MILLION DAMAGES VERDICT IS APPROPRIATE..... 27

CONCLUSION 30

INDEX TO APPENDIX i

APPENDIX .....App. 1

TABLE OF AUTHORITIES

Page

CASES

Adams v. Robertson, 520 U.S. 83 (1997) 13

Aguilar v. Atlantic Richfield Co., 25 Cal.4th 826 (2001) 22

Bankers Life & Cas. Co. v. Crenshaw, 486 U.S. 71 (1988) 13

Bertero v. National General Corp., 13 Cal.3d 43 (1974) 17

BMW of North America v. Gore, 517 U.S. 559 (1996)..*passim*

Cooper Industries, Inc. v. Leatherman Tool Group, 532 U.S. ___, 121 S.Ct. 1678 (2001) ... 1, 14, 20, 23, 24, 28

Downey Savings & Loan Assoc. v. Ohio Cas. Ins. Co., 189 Cal.App.3d 1072 (1987) 18, 19

Egan v. Mutual of Omaha Ins. Co., 24 Cal.3d 809 (1979) 26

Foley v. Interactive Data Corp., 47 Cal.3d 654 (1988) 26

Hasson v. Ford Motor Co., 32 Cal.3d 420 (1982)..... 15

Lane v. Hughes Aircraft Corp., 22 Cal.4th 405 (2000) 22

Leatherman Tool Group, Inc. v. Cooper Industries, Inc., 205 F.3d 1351 (1999) 20

Mock v. Michigan Millers Mutual Ins. Co., 4 Cal.App.4th 306 (1992)..... 22

Mohilef v. Janovici, 51 Cal.App.4th 267 (1996) 23

Neal v. Farmers Ins. Exchange, 21 Cal.3d 910 (1978) 17, 21, 22

Norgart v. Upjohn Company, 21 Cal.4th 383 (1999) 15

TABLE OF AUTHORITIES – Continued

Page

Pacific Mutual Life Ins. Co. v. Haslip, 499 U.S. 1 (1991) 24, 29

Rosener v. Sears, Roebuck & Co., 110 Cal.App.3d 740 (1980) 18

San Paolo U.S. Holding Co., Inc. v. Simon, 532 U.S. ___, 121 S.Ct. 2190 (2001) 20

Shade Foods, Inc. v. Innovative Product Sales & Marketing, Inc., 78 Cal.App.4th 847 (2000) 22

State of Ohio v. Barron, 52 Cal.App.4th 62 (1997) 23

TXO Production Corp. v. Alliance Resources Corp., 509 U.S. 443 (1993) 28, 29, 30

Webb v. Webb, 451 U.S. 493 (1881) 13

STATUTES

Calif. Civil Code section 3294 16

Calif. Civil Code section 3295 16

Calif. Civil Code section 3296 26

Calif. Penal Code section 550 24

Calif. Rules of Court, Rule 29 12

15 U.S.C. § 1011 26

OTHER AUTHORITY

EISENBERG, HORVITZ & WIENER, CIVIL APPEALS & WRITS: CALIFORNIA PRACTICE GUIDE § 8:110.1 (2000) 22

INTRODUCTION

This case involved an insurance company that fabricated policy documents after a loss to fraudulently and retroactively remove insurance coverage.

In its petition, National Union likens this case to *Cooper Industries, Inc. v. Leatherman Tool Group, Inc.*, 532 U.S. ___, 121 S.Ct. 1678 (2001). But this case was not like *Cooper*. In this case, a California jury found that an insurance company that was duty-bound to act with utmost good faith did just the opposite – committing insurance fraud and insurance bad faith. Contrary to National Union's repeated assertions, no court ever "rubber-stamped" that jury's verdict. In fact, the California judiciary took just the opposite approach, affirmatively using the federal constitution to slash the jury's punitive damages verdict by 83 percent. In contrast to *Cooper*, no level of the California judiciary ever refused to examine or evaluate the constitutional propriety of the jury's verdict. At every level of review, the California judiciary insisted that federal constitutional principles called for a significant reduction of the jury's verdict.

As it did throughout the appellate process, National Union continues to view the facts of the case as if it prevailed at trial. If the actual facts of this case were anything close to those that National Union continues to argue, the jury would have found in favor of National Union, not against it.

Trying to generate a federal issue where none exists, National Union offers a distorted reading of the Court of Appeal's opinion. The Court of Appeal's opinion actually reflects that it independently evaluated federal constitutional punitive damages law not once, but twice.

In the pages that follow, Textron points out some of the major problems with National Union's petition.

Among other things, National Union waived the belated argument that it advances in this petition. When it petitioned for rehearing with the Court of Appeal that issued the challenged opinion, National Union did not raise the standard of review issue. Under California law, the standard of review issue had to be raised in the petition for rehearing if National Union was to maintain a right to seek further review on that basis.

And National Union invited the very "error" that it now complains about. Ironically, when it briefed these issues in the California Court of Appeal, National Union advocated an abuse of discretion standard, arguing that "no abuse of discretion occurred here," and that the trial court "did not abuse its discretion in holding that the jury's $10 million punitive damage award was excessive." App. 41-42.[1]

Ultimately, this case doesn't just involve a questionable paint job or a 500 to 1 ratio of punitive to compensatory damages. The issue raised in National Union's petition has no merit and does not warrant further judicial review.

FACTUAL BACKGROUND

This trial lasted more than a month and a half, and generated a record that exceeded 10,000 pages. On appeal, the parties filed various augmentations of the record, several motions, and seven separate appellate briefs that occupied over 300 pages and raised numerous legal and factual arguments.

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[1] Citations to respondent's appendix are abbreviated "App." Citations to petitioner's appendix are abbreviated as PA [page no.]a.

Textron's task of presenting the facts is made more difficult because National Union's petition presents an incomplete and misleading version of the facts.

In early 1992, Textron loaned Il Sung Ko $87,000 to buy a tour bus for his business. To protect itself, Textron had Ko obtain insurance covering Textron's security interest in the bus. Ko bought insurance from National Union. Textron was named as an additional insured under the policy. PA 3a.

After the 1992 Los Angeles riots, Ko faced a slowing tourism business and cash flow problems. Douglas Ferguson, Ko's broker, advanced a premium payment for Ko. Nevertheless, on October 22, 1992, National Union sent Ko a cancellation notice which said the policy would cancel as of November 27, 1992. PA 3a.

Aware that Ko was not using some of the six buses in his fleet, Ferguson wrote to TRM International, Inc., National Union's managing general agent for bus insurance, and asked if a new policy could be issued "with only four units." In response to Ferguson's inquiry, George Peare, a TRM underwriter, responded by suggesting a lay-up credit, a "much easier way of doing it." PA 3a. According to Ferguson, discussion about the lay-up credit was limited. He was told to "Get the license plates. Get the license plates."

Lay-up credits are a form of mileage rating. The risk of loss is reduced where fewer total miles are being driven. So an insurer that offers a lay-up credit reduces the premium when vehicles are not in regular use. Unlike deletions, lay-up credits do not eliminate or even reduce coverage. Because full coverage remains in effect, insurance companies that issue lay-up credits typically ask for

license plates to minimize the likelihood that a laid-up vehicle will be used on a daily basis. PA 4a.[2]

The lay-up credit was advantageous for National Union since it kept the policy in force, allowed National Union to continue collecting premium payments of about $5,000 a month, required very little paperwork, and did not require notice to other parties. In contrast, vehicle deletions would have required notice to Textron, other lenders, various public entities, and the City of Los Angeles.

A few days after the policy was canceled for nonpayment of premium (without notice to Textron), Ko made a partial premium payment and sent the license plates for two of his six buses to Ferguson. Within a few days, National Union implemented the lay-up credit, and the policy was reinstated in full, with no reduction in coverage. PA 4a.

Ko's broker, Ferguson, did not understand the difference between lay-up credits and deletions. Ferguson thought lay-up credits and deletions were the same thing. He incorrectly assumed that lay-up credits and suspensions terminated coverage.

Ferguson also wanted to make sure he recovered the premium he had advanced. So after National Union reinstated the policy, Ferguson continued to send notes to TRM which emphasized that he had the license plates. However, since the lay-up credit had already been issued,

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[2] "Deletions," on the other hand, eliminate coverage for the deleted vehicle. As a result, policyholders are not required to turn in license plates when the insurer deletes a vehicle from coverage. Deletions typically occur when a policyholder sells a vehicle to a third party. If insurance companies made policyholders turn in license plates when coverage was deleted, policyholders would not be able to sell their vehicles.

and the policy fully reinstated, TRM did not bother to respond.

On January 7, 1993, one of Ko's buses broke down. The Textron-financed bus was sent to pick up stranded passengers, and it was severely damaged when it spun on a patch of ice and collided with a truck. Since Ferguson erroneously believed lay-up credits eliminated coverage, he told Ko (and Ko's assistant) the accident was not covered. Nevertheless, after talking to a TRM claims supervisor, Dick Longuil, Ferguson presented a claim to National Union (through its adjusting affiliate, American International Adjustment Company (AIAC)). PA 4a.

Because the lay-up credit had resulted in a full policy reinstatement, coverage for the accident was internally verified on February 4, 1993. PA 4a. But a claims adjuster subsequently spoke to Ko's assistant and learned that Ko and his assistant (neither of whom spoke English as a first language) erroneously believed there was no coverage for the accident. The adjuster did not disclose that coverage had already been verified, explaining that "coverage is usually, in my experience, only discussed with an insured if it's a problem."

Claims adjusters had been instructed to contact John Lavin (an underwriting manager in National Union's Home Office) "for a complete policy copy." The claims office did request a copy of the policy, but National Union refused to release the policy, even to its own adjusters.

Because National Union's Home Office refused to allow access to the actual policy, claims personnel turned to the TRM claims supervisor, Dick Longuil. But Longuil worked in New York, eight hours away from TRM's New Jersey office. As a result, Longuil did not have access to any file materials.

Even without documents, however, Longuil immediately had "a bad feeling about" the accident. He was troubled by the possibility of personal injury claims that could become very costly for the insurer if the bus was carrying passengers. (Even as late as September of 1994, National Union Home Office personnel were still worried about "potential B[odily] I[njury] claims").

A few days later, National Union denied Ko's claim (and the claim that had been presented for the owner of the truck that was hit by the bus). National Union said coverage had been canceled before the accident. PA 4a. The claims were denied even though coverage had been internally verified, even though the policy had been fully reinstated before the accident, and even though there were no policy documents or computer records showing a "deletion."

As of February 1993, no one had told Textron about the policy cancellation, the lay-up credit, the policy reinstatement, the accident, or the coverage verification.

Ko continued making loan payments as long as he could. But by late 1993, Ko defaulted on his Textron loan. Textron then learned the bus was involved in an accident earlier that year. When it inquired, Textron was falsely told its bus coverage was terminated before the accident. As a result, Textron was required to sue Ko, who was forced into bankruptcy. PA 4a.

National Union formally denied Textron's claim based on the false contention that National Union couldn't tell Textron about the coverage termination because National Union itself did not have advance notice of the cancellation. National Union's denial letter did not disclose the lay-up credit, the reinstatement, or the fact that coverage had been verified after the accident.

Textron had started asking for a copy of the National Union insurance policy in January 1994. Two months later, in March 1994, National Union finally gave its own claims adjusters a copy of the original Home Office policy. But National Union decided to withhold the policy from Textron. Why did National Union refuse to let Textron see a copy of the original policy? Because the original policy had a credit endorsement, but no "deletion" endorsement.

Rather than giving Textron a copy of the original policy, National Union waited another five months and then it gave Textron a different version of the policy. This new version of the policy conveniently replaced the credit endorsement No. 8 with a falsified "deletion" endorsement No. 8 – a falsified document that had been created long after the accident. PA 4a.

Textron sued National Union in August 1994. By the end of the trial, everyone in the courtroom knew that National Union had been caught perpetrating a serious fraud. National Union had issued a lay-up credit and fully reinstated the policy *before* the accident. But because it was worried about a flood of possible personal injury claims that might have come from passengers on a seriously damaged tour bus, and because it knew Ko and his broker did not know about lay-up credits, National Union had fabricated certain documents and concealed others to fraudulently and retroactively terminate coverage. App. 23.

National Union's own designated claims handling expert testified about two other California cases where National Union had misled policyholders and been subjected to substantial punitive damages awards ($43 million and $14 million). In one of those cases, National

Union had even taken steps to retroactively reduce coverage. App. 29. National Union's witnesses admitted that the company had a corporate policy of not apologizing to its policyholders. App. 30.

From start to finish National Union tried to conceal evidence and deceive Textron and others. When it started responding to Textron's claim, National Union chose not to mention important facts, such as the fact that the policy had been fully reinstated before the accident. To prevent Textron from learning that the fabricated deletion endorsement had been created after the accident, a "certificate of mailing" was placed over the purported creation date before the falsified "deletion" version of endorsement No. 8 was faxed to Textron. App. 27-28.[3]

Then, instead of giving Textron a copy of the actual policy, National Union gave Textron a different version of the policy – a version which substituted a fabricated "deletion" endorsement for the lay-up credit endorsement. The original policy was withheld until a court ordered it to be produced, because National Union knew the original policy revealed that as late as October of 1993 (nine months after the accident) there was still no "deletion" endorsement. App. 27.

During trial, the jury also learned that National Union's underwriting file had been manipulated before it was produced to Textron. The file manipulation was exposed because Ferguson's file included lay-up credit-related correspondence that had been removed from the

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[3] The "certificate of mailing" revealed further efforts to deceive. For example, there was no corresponding "certificate of mailing" for the other bus that was supposedly "deleted." If National Union had been providing routine "deletion" notices, it would have prepared "certificates of mailing" for both buses, not just the Textron-financed bus.

underwriting file. For example, Exhibit 15 was the underwriter's "much easier way of doing it" letter. The "much easier way of doing it" obviously referred to a lay-up credit. But Exhibit 15 (and other similar documents) had been removed from the underwriting file before the file was produced to Textron. App. 26.

During trial, National Union went so far as to destroy documents to keep them from the jury. For example, National Union's Portland claim file was housed in a jacket that would have reflected important claims information. Nevertheless, National Union produced only part of the file, explaining that "some idiot" had destroyed the file's jacket before it could be made available to Textron. There was no legitimate reason to destroy the jacket. In fact, without the jacket, there was nothing to hold the file together. App. 26.

Attempts to deceive continued right up to the last day of trial, when National Union called a witness who tried to get the jury to believe Textron had been paid (or soon would be paid in response to the jury's decision). But National Union never made any voluntary payment to Textron.

The evidence permitted only one reasonable conclusion: that National Union had perpetrated a serious fraud and then tried to cover it up. In fact, the conduct was so egregious that even National Union's own attorney conceded during closing arguments that if the jury believed the documents rather than National Union's witnesses, then this conduct was "vile." App. 26.

In addition to insurance bad faith, the jury's verdict found fraud by National Union. The findings included both affirmative misrepresentation and concealment. Applying California's heightened clear and convincing

evidence standard, the jury also found that National Union acted with malice, with fraud *and* with oppression.

The trial judge reached the same conclusion on post-trial motions, affirming the jury's conclusion that National Union perpetrated a fraud.

POST-TRIAL PROCEDURAL HISTORY

Following trial and entry of judgment, National Union moved for a new trial and asked the trial judge to reduce the jury's verdict based on *BMW v. Gore*, 517 U.S. 559 (1996). Ironically, the trial judge reduced the jury's punitive damages verdict from $10 million to $1.7 million, despite observing that:

> California has a long history of permitting punitive damage awards where the evidence is sufficient to establish fraud or the malicious or oppressive breach of the covenant of good faith and fair dealing. *Surely National Union does not contend, nor can it, that it did not have fair notice that the breach of the covenant of good faith and fair dealing could result in the imposition of substantial punitive damages under the common law.*

PA 39a, italics added.

When it appealed the ruling, National Union made a wide array of sometimes contradictory arguments that substantially evolved and changed over time. National Union started with a laundry list of arguments centered squarely on state law issues – such as jury instructions pertaining to the state law definition of a "managing agent," common law principles of "offset" and ratification, and various state law standards for tort liability. App. 3-4.

In the very last part of its 65-page opening brief, National Union argued that *BMW v. Gore* mandated further reduction of the already substantially reduced punitive damages award. But National Union did not argue that it lacked fair notice that it could be subjected to a multi-million dollar punitive damages award if it was caught fabricating policy documents after a loss in order to fraudulently deny an insurance claim. It simply used its own erroneous view of the facts to argue the *BMW* guideposts without reference to their ultimate function. App. 5-12.

In a subsequent appellate brief, National Union prioritized its arguments for the Court of Appeal. National Union unequivocally said a single state law issue was of paramount importance, explaining that:

> The principal issue on this appeal is whether the trial court erred by instructing that TRM was National Union's managing agent under Civil Code section 3294.

App. 39.

Ironically, in that same brief, National Union urged the Court of Appeal to apply an abuse of discretion standard to the $1.7 million punitive damages award – a position that seems to be exactly the opposite of the position National Union is advancing in this petition. App. 41-42.

In its unpublished opinion, the Court of Appeal disposed of a wide array of issues that had been raised in National Union's appeal, Textron's separate appeal, and Textron's cross-appeal. The Court of Appeal's opinion did not address each and every sub-part of every argument that had been advanced by Textron and National Union in their 300+ pages of briefing. Of course, an opinion that extensive would have required several hundred pages of discussion.

Following the issuance of the appellate opinion, National Union petitioned for rehearing with the California Court of Appeal, as it was required to do under state law in order to preserve issues for further review. However, National Union's petition for rehearing did *not* address the standard of review, and it never argued that the Court of Appeal failed to independently consider federal constitutional principles pertinent to punitive damages. App. 50-53. The petition for rehearing was denied, as was National Union's petition for review to the California Supreme Court.

REASONS WHY NATIONAL UNION'S PETITION SHOULD BE DENIED

National Union does not argue that this case satisfies the traditional and accepted standards for invoking this Court's discretionary review. Indeed, this was an unpublished appellate court decision followed by a summary denial of review in the state's supreme court.

In addition to the fact that there is no legitimate reason for this Court to consider National Union's petition, there are many other problems with National Union's petition. Some of these problems are discussed below.

1. NATIONAL UNION WAIVED THE ONE ARGUMENT ADVANCED IN ITS PETITION

Under California law, National Union was required to raise the standard of review issue in a petition for rehearing with the court of appeal that decided the case if it wanted to preserve that issue for further appellate review. Rule 29(b) of the California Rules of Court provides in pertinent part:

> As a matter of policy, on petition for review the Supreme Court normally will not consider . . . any issue or any material fact that was omitted from or misstated in the opinion of the Court of Appeal, unless the omission or misstatement was called to the attention of the Court of Appeal in a petition for rehearing.

National Union filed a petition for rehearing, but the petition did not raise the standard of review issue. Instead, National Union's petition for rehearing simply reargued various factual positions that it had unsuccessfully argued during the trial. App. 50-53.

Because National Union failed to properly preserve the standard of review argument for further review, the argument was waived in the California Supreme Court, and it is waived here.

As this Court has held, "we will not consider a petitioner's federal claim unless it was either addressed by, or properly presented to, the state court that rendered the decision we have been asked to review." *Adams v. Robertson*, 520 U.S. 83, 86 (1997). To properly preserve an argument for potential review, a petitioner must establish that the claim was raised "at the time and in the manner required by the state law." *Bankers Life & Cas. Co. v. Crenshaw*, 486 U.S. 71, 78 (1988) (quoting from *Webb v. Webb*, 451 U.S. 493, 501 (1981)).

National Union's petition boils down to a single argument – that the California Court of Appeal should have written a longer opinion – one that included two extra sentences: a sentence saying National Union's conduct fell at the extreme end of the reprehensibility scale and a sentence saying insurance fraud merits substantial civil or criminal penalties.

These issues were fully briefed and evaluated by the Court of Appeal. App. 5-12, 15-30, 33-35, 41-42, & 46-49.

But to the extent National Union took issue with the Court of Appeal's opinion, National Union had to petition for rehearing on that basis in order to give that same panel of judges a chance to correct the error National Union perceived. National Union's failure to raise the standard of review issue in its petition for rehearing resulted in a waiver of National Union's argument.

2. NATIONAL UNION INVITED ANY PERCEIVED ERROR

A fair reading of the Court of Appeal's opinion reflects that the court independently evaluated federal constitutional punitive damages constraints twice – once in connection with Textron's argument that the $10 million verdict was appropriate under federal law, and then again when rejecting National Union's argument that the substantially reduced $1.7 million award was unconstitutional.

In *Cooper Industries v. Leatherman Tool Group, Inc.*, 532 U.S. ___, 121 S.Ct. 1678 (2001), this Court held that in evaluating the propriety of a jury verdict awarding punitive damages, an appellate court should exercise independent review with respect to the federal constitution's due process limits on punitive damages, and it should not apply an abuse of discretion standard. 121 S.Ct. at 1688.

Ironically, in its briefing to the Court of Appeal, National Union itself urged the court to apply an abuse of discretion standard.[4] So even if the California Court of

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[4] Among other things, National Union argued that "[n]o abuse of discretion occurred here." App. 41. And National Union argued that the trial court "did not abuse its discretion in holding that the jury's $10 million punitive damage award was excessive." App. 42.

Appeal had applied an abuse of discretion standard, and even if it had not independently evaluated federal constitutional issues, there would still be no basis for further review by this Court. This is because when it urged the Court of Appeal to adopt an abuse of discretion standard, National Union invited the alleged "error" that it is complaining about now.

Where a party invites a court to commit error in California, the party is estopped from asserting that alleged error as a ground for reversal on appeal. *See, e.g., Norgart v. Upjohn Co.*, 21 Cal.4th 383, 403 [981 P.2d 79, 92] [87 Cal.Rptr.2d 453, 467] (1999) and *Hasson v. Ford Motor Co.*, 32 Cal.3d 388, 420-21 [650 P.2d 1171, 1191] [185 Cal.Rptr. 654, 674] (1982), *cert. dismissed*, 459 U.S. 1190 (1983).

To argue against the appellate court's reinstatement of the jury's $10 million punitive damages verdict, National Union urged the appellate court to apply an abuse of discretion standard to the punitive damages award. Therefore, even if the Court of Appeal had applied an abuse of discretion standard (which it did not), National Union invited that alleged error and waived the right to challenge the Court of Appeal's decision on that basis.

3. THE CALIFORNIA COURT OF APPEAL INDEPENDENTLY REVIEWED FEDERAL CONSTITUTIONAL PUNITIVE DAMAGES STANDARDS

In its effort to suggest that the California Court of Appeal ignored federal punitive damages standards, National Union selectively quotes a few sentences from the opinion dealing with California's own state law standards for punitive damages review, and conveniently ignores language in the opinion dealing with the court's

separate analysis of the applicable federal law standards. Actually, the Court of Appeal evaluated *both* state and federal punitive damages law.

Since 1988, California has imposed stringent safeguards against unwarranted punitive damages awards. For example, under applicable state law, a defendant can (and in this case did) request a bifurcated trial, so that the jury must decide liability *and* malice, fraud or oppression before it hears about the defendant's wealth. Cal. Civ. Code § 3295(d). Punitive damages are only recoverable on a showing of malice, fraud, or oppression. Cal. Civ. Code § 3294(a).

To establish malice or oppression, a plaintiff needs to establish despicable conduct. Cal. Civ. Code § 3294(c). Consistent with current California law, the jury that decided this case was instructed that "despicable conduct" is "conduct which is so vile, base, contemptible, miserable, wretched, or loathsome that it would be looked down upon and despised by ordinary decent people."

And perhaps most importantly, since 1988, California law has only permitted punitive damages if the jury determines that malice, oppression, and fraud has been proven by "clear and convincing" evidence. Cal. Civ. Code § 3294(a). In this case, consistent with current California law, the jury was instructed that "clear and convincing evidence" means evidence "so clear as to leave no substantial doubt; sufficiently strong to command the unhesitating assent of every reasonable mind."

The jury's findings were based on its assessment of witness credibility and evidence that demonstrated a pattern of deceit and deception by an insurance company that had an obligation to act with utmost good faith

toward Textron and others. National Union then compounded the wrongdoing by trying to cover it up, and going so far as to remove key documents from files (and destroying other documents).

Under state law standards for punitive damages, the $10 million verdict posed no problems. The reprehensibility of the conduct was extreme, and it was compounded by National Union's efforts to cover it up and evidence of National Union's recidivism. National Union's wealth was obviously significant (almost $4 billion). Finally, as compared to the amount of compensatory damages the trial judge allowed, the 60:1 ratio was far less than other awards that have been approved by state and federal courts. And when the potential harm was considered, the ratio became something closer to 1:1.

A. California Punitive Damages Review Involves An Assessment Of Whether The Jury Acted Based On Passion And Prejudice

When assessing a jury's punitive damages verdict under state law, California courts "historically honored [the] standard of reversing as excessive only those judgments which the entire record, when viewed most favorably to the judgment, indicates were rendered as the result of passion and prejudice on the part of the jurors." *Bertero v. National General Corp.*, 13 Cal.3d 43, 65 fn. 12 [529 P.2d 608, 624, 118 Cal.Rptr. 184, 200] (1974).

In assessing whether or not a particular jury's verdict was based on passion or prejudice, California courts typically analyzed the "varying degrees of reprehensibility," the ratio between punitive damages and compensatory damages, and "the wealth of the particular defendant." *Neal v. Farmers Ins. Exchange*, 21 Cal.3d 910, 928 [528 P.2d 980, 990, 148 Cal.Rptr. 389, 399] (1978).

This state law standard required an assessment of the particular facts of each case, with the appellate court trying to determine whether or not the jury's verdict was improperly based on passion and prejudice.

Two cases decided before California implemented the current laws that make it much harder to get punitive damages illustrate the point. In *Rosener v. Sears, Roebuck & Co.*, 110 Cal.App.3d 740 [168 Cal.Rptr. 237] (1980), *appeal dismissed*, 450 U.S. 1051 (1988), a $10 million punitive damages award was reversed in a case where the evidence established that "shoddy workmanship" resulted in injuries "varying from the loss of a family Bible caused by leaks in an unrepaired roof, to the total loss of privacy suffered by an entire family forced to sleep in the same room when the interior walls of their room were left unrepaired." 110 Cal.App.3d at 747 [168 Cal.Rptr. at 241]. In *Rosener*, the court decided that the jury acted based on passion or prejudice, particularly since the trial court failed to instruct the jury that the punitive damages award had to be reasonably related to the amount of harm inflicted by the defendant. 110 Cal.App.3d at 753-54 [168 Cal.Rptr. at 254].

At the opposite end of the spectrum is *Downey Savings & Loan Assoc. v. Ohio Cas. Ins. Co.*, 189 Cal.App.3d 1072 [234 Cal.Rptr. 835] (1987), *cert. denied*, 486 U.S. 1036 (1988). Like this case, *Downey Savings* involved an insurance company that failed to honor its duty of good faith and fair dealing. And like this case, the plaintiff in *Downey Savings* was a successful business enterprise, not an individual or family likely to generate undue sympathy. Although there was no evidence of overt fraud, the insurance company had failed "to give the interests of the insured at least as much consideration as it gives to its own interests." 189 Cal.App.3d at 1098 [234 Cal.Rptr. at

850]. In approving a $5 million punitive damages verdict (against $152,000 in compensatory damages), the *Downey Savings* court zeroed in on California's passion or prejudice standard, noting that "the plaintiff here was not one to arouse the jury's sympathy." 189 Cal.App.3d at 1099 [234 Cal.Rptr. at 850].

In this case, the state's standard for assessing punitive damages did not require any modification of the jury's $10 million punitive damages verdict. The reprehensibility of the conduct was extreme, to say the least. National Union's wealth was far larger than other defendants who had received similar or greater punishments. And the ratio of punitive damages to the harm or potential harm associated with National Union's conduct was substantially less than other ratios that had been affirmed by California courts.

Most importantly, however, this was never a case where a jury would ever be tempted to act based on passion and prejudice. From the first day of the trial forward, National Union repeatedly reminded the jury that Textron was an out-of-state corporation that had substantial assets, and whose corporate parent was at one time a Fortune 50 company. Instead of being based on sympathy for Textron or passion and prejudice against a large corporation, the jury's punitive damage assessment recognized the extreme reprehensibility of National Union's conduct, its fraudulent retroactive efforts to deny coverage, its total lack of remorse, and its unrelenting efforts to conceal its wrongdoing.

B. Federal Punitive Damages Law Focuses On Adequate Notice To The Defendant

Federal punitive damages law does not focus on passion and prejudice of a jury. To the contrary, "the

federal excessiveness inquiry appropriately begins with an identification of the state interests that a punitive award is designed to serve." *BMW*, 517 U.S. at 568. And the three *BMW* guideposts are intended to assess the question of whether or not a defendant has "fair notice . . . of the severity of the penalty that a State may impose." *Id.* at 574.

C. The California Court Of Appeal's Opinion

The California Court of Appeal that decided this case was well aware of the differing federal and state law standards for punitive damages review. In contrast to the federal appellate court that decided *Cooper*, the California Court of Appeal here did *not* apply an abuse of discretion standard.[5] And unlike the intermediate appellate court whose decision was at issue in *San Paolo U.S. Holding Co., Inc. v. Simon*, 532 U.S. ___, 121 S.Ct. 2190 (2001), the Court of Appeal here did not fail to appreciate the differences between federal and state punitive damages law.[6]

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[5] The federal appellate court that decided *Cooper* did not independently analyze federal law constraints on punitive damages because it simply determined that "the district court did not abuse its discretion in declining to reduce the amount of punitive damages." *Leatherman Tool Group, Inc. v. Cooper Industries, Inc.*, 205 F.3d 1351, 1999 WL 1216844, at *2 (9th Cir. 1999).

[6] In *Simon*, the appellate court that refused to reduce a $1.7 million punitive damages award that had been rendered against a compensatory award of $5,000, declined to analyze federal law by saying that, "[t]he *BMW* guidelines are nearly identical, and serve the same purpose as California's criteria; thus, an award which passes muster under California's rules will satisfy the requirements for federal due process." *Simon v. San Paolo U.S. Holding Co., Inc.*, Case No. B121917 (reprinted in *San Paolo*, No. 00-1457, Pet. App. A-28).

The Court of Appeal here appropriately devoted the majority of its attention to National Union's primary arguments, rather than the very last argument National Union raised in its 135 pages of briefing. Nevertheless, the Court of Appeal independently determined that the trial judge had properly analyzed *BMW* and federal constitutional law to cut the jury's $10 million punitive damages verdict to $1.7 million. PA 23a.

Then the Court of Appeal analyzed National Union's argument against the reduced award. After addressing the state law "passion and prejudice" standard, the court turned to its independent analysis of federal law. The court specifically acknowledged *BMW*'s three guideposts, and their focus on whether or not the defendant had fair notice that its conduct could result in the challenged punitive damages award. PA 24a.

After specifically acknowledging the three guideposts, the California Court of Appeal independently concluded that the "record reflects the present award is permissible under *both* state and federal law." PA 24a.

Since the Court of Appeal's opinion reflects that it was aware of the differences between federal and state punitive damages law, and because the opinion reflects that federal law issues were independently reviewed, National Union cites to a series of cases that pre-date this Court's *BMW* decision.

The cases that were decided between 1949 and 1990 do not involve *any* assessment of federal constitutional issues pertaining to punitive damages. For example, in *Neal v. Farmers Ins. Exchange*, 21 Cal.3d 910 [582 P.2d 980, 148 Cal.Rptr. 389] (1978), the defendant never challenged punitive damages on the basis of any constitutional argument. Instead, the defendant argued that it had done

nothing wrong, and that there was no evidence to support the verdict. 21 Cal.3d at 921-22 [582 P.2d at 985-986, 148 Cal.Rptr. at 493-95]. As a result, the court focused on state law standards that addressed jury passion and prejudice.

National Union does cite two more recent cases. In *Shade Foods, Inc. v. Innovative Product Sales & Marketing, Inc.*, 78 Cal.App.4th 847, 909-910 [93 Cal.Rptr. 2d 364, 395-396] (2000), the court applied the more stringent punitive damages standards California implemented in 1988 to reverse the punitive damages award, finding that the record would not support a finding of malice and oppression by clear and convincing evidence.[7] Accordingly, there was no need to even consider federal constitutional issues. Likewise, in *Lane v. Hughes Aircraft Co.*, 22 Cal.4th 405 [993 P.2d 388, 93 Cal.Rptr. 2d 60] (2000), there is no indication that either party raised issues concerning federal constitutional limits on punitive damages.

Although National Union's petition never mentions it, California law requires independent review of constitutional issues. *See, e.g.*, EISENBERG, HORVITZ & WIENER, CIVIL APPEALS & WRITS: CALIFORNIA PRACTICE GUIDE § 8:110.1 (2000) ("constitutional issues (due process or equal protection challenges, etc.) are reviewed de novo"). In this regard, the Court of Appeal's independent review was consistent with many other California decisions. *See, e.g., Aguilar v. Atlantic Richfield Co.*, 25 Cal.4th 826, 860 [24

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[7] Since 1988, California appellate courts have used these changes in California punitive damages law to strike down a punitive damages verdict in cases where the record failed to establish wrongdoing that could fairly be described as "despicable conduct." *See, e.g., Mock v. Michigan Millers Mutual Ins. Co.*, 4 Cal.App.4th 306, 328-333 [5 Cal.Rptr.2d 594, 607-610] (1992).

P.3d 493, 517, 107 Cal.Rptr. 2d 841, 870] (2001) (a court's application of facts to decisional law "is itself scrutinized de novo"); *State of Ohio v. Barron*, 52 Cal.App.4th 62, 67 [60 Cal.Rptr.2d 342, 344] (1997) ("As correctly noted by defendant, constitutional issues are reviewed de novo."); and *Mohilef v. Janovici*, 51 Cal.App.4th 267, 285 [58 Cal.Rptr.2d 721, 730] (1996) (holding that where the issue involves "application of the due process clause, we review the trial court's decision de novo").

Contrary to National Union's implied suggestion, California courts independently review due process determinations.

Nothing in the Court of Appeal's discussion of *BMW* suggests that the court failed to independently consider federal law issues. And nothing in the opinion suggests that the court applied an abuse of discretion standard to its assessment of federal law punitive damages constraints.

National Union's petition is based on the erroneous assumption that the Court of Appeal never evaluated federal law punitive damages standards.

4. EVEN IF THE CALIFORNIA COURT OF APPEAL ANALYZED FEDERAL LAW PERTAINING TO PUNITIVE DAMAGES UNDER AN ABUSE OF DISCRETION STANDARD, THE ALREADY SUBSTANTIALLY REDUCED $1.7 MILLION PUNITIVE DAMAGES AWARD WOULD NOT BE INVALID

In *Cooper*, this Court seemed to acknowledge that the applicable standard of review may "affect the result of the *Gore* analysis in only a relatively small number of cases." 532 U.S. at ___, 121 S.Ct. at 1688. However, in *Cooper* the standard of review could have been significant because the jury had been inappropriately told that it

could punish the defendant for perfectly legal conduct: copying the functional features of an unpatented product. The fact that the jury had awarded a $4.5 million punitive damages verdict against a $50,000 compensatory damages award (a 90:1 ratio) was sufficient to raise a constitutional issue, particularly since it appeared that the jury had punished the defendant for lawful conduct.

This problem – the possibility that a defendant was punished for perfectly legal conduct – was also identified in *BMW*. In fact, *BMW*'s conduct was perfectly legal in "roughly 25 States." 517 U.S. at 565.

In contrast to cases like *Cooper* and *BMW*, this case involved deliberate insurance fraud, in addition to insurance bad faith. National Union has never argued that insurance fraud is legal in any state. Instead, insurance fraud is typically considered a crime of such magnitude that it warrants substantial imprisonment, in addition to large fines. For example, in California, insurance fraud penalties include five (5) years *imprisonment* and fines of up to "double the value of the fraud." Cal. Penal Code § 550(b).

National Union never addressed the fact that its conduct was illegal everywhere (and could result in substantial imprisonment and a substantial fine in California). So Textron was forced to call these issues to the attention of the Court of Appeal. App. 35. This Court has previously acknowledged that one reason insurance fraud can justify a substantial punitive damages award is because it is a serious wrong that can result in imprisonment. *Pacific Mutual Life Ins. Co. v. Haslip*, 499 U.S. 1, 23 (1991).

The other *BMW* guideposts also suggested that National Union had adequate notice that it could be required to pay a large punitive damages award if it was caught fabricating documents after a loss to fraudulently

and retroactively remove coverage. The ratio of punitive to compensatory damages was 10:1, even based on the actual compensatory award. But when the potential harm is considered, the ratio falls to something much closer to 1:1.

For example, despite the fact that its attorneys spent over 1,500 hours trying to get National Union to honor the claim, the court awarded Textron only $30,000 in legal fees. (*See* PA 13a.) Had the court allowed the jury to award damages based on a reasonable hourly rate (or if Textron had hired its counsel on an hourly basis), the compensatory damages award would have approached or exceeded $500,000.

One of the reasons National Union engaged in the fraudulent scheme to retroactively revoke coverage is that National Union officials feared that the Textron-financed bus might have been carrying passengers at the time of the accident. National Union was concerned that it would have to pay personal injury claims to a large number of injured passengers.

When these harms and potential harms are considered, the ratio becomes quite small in comparison to other punitive damages awards that have been approved by this Court and courts around the country.

Finally, National Union complains that the Court of Appeal did not expressly say that National Union's conduct was extremely reprehensible. This unusual argument is hard to understand. During trial, National Union's own attorney told the jury that if it concluded that National Union had in fact fabricated documents in order to retroactively remove coverage, that would be a vile act. App. 26.

It would be inappropriate for any business entity to falsify documents in order to perpetrate a fraud, and then

secrete and destroy other documents to try to conceal that fraud. But when that conduct is performed by an insurance company – a company that promises security and has a legal duty to act with utmost good faith toward its policyholders – there is simply no room to argue that this is a form of mild conduct that does not warrant the strong medicine of substantial punitive damages.

In this regard, it is worth recalling that *BMW* specifically says "the federal excessiveness inquiry appropriately begins with an identification of the state interests that a punitive award is designed to serve." 517 U.S. at 568. Although National Union has never addressed the state interest component of *BMW*, California has a compelling state interest in being able to deter state-licensed insurers from engaging in fraud as a means of unfairly and improperly denying insurance claims. The United States Congress has specifically declared that state regulation of the business of insurance "is in the public interest. . . . " 15 U.S.C. § 1011. And the California Supreme Court has repeatedly acknowledged the state's strong interest in promoting fair and efficient handling of insurance claims on the part of insurers. *See, e.g., Egan v. Mutual of Omaha Ins. Co.*, 24 Cal.3d 809, 819-820 [620 P.2d 141, 145-146, 169 Cal.Rptr. 691, 695-696] (1979). *See also Foley v. Interactive Data Corp.*, 47 Cal.3d 654, 683-685 [765 P.2d 373, 389-391, 254 Cal.Rptr. 211, 227-229] (1988).

In fact, California law requires policyholders to report punitive damages awards to a state agency in order to help the state police insurers who engage in malicious conduct toward policyholders. Cal. Civ. Code § 3296. California's interest in deterring state-licensed insurers from perpetrating frauds in order to wrongfully deny insurance claims is a significant interest that warranted substantial punitive damages.

Whatever the standard of review, a $1.7 million punitive damages award does not violate the federal constitution when it is imposed against an insurance company that committed an affirmative, deliberate fraud, retroactively removing coverage by fabricating documents.

5. IF THERE WAS NO INDEPENDENT REVIEW, REINSTATEMENT OF THE JURY'S $10 MILLION DAMAGES VERDICT IS APPROPRIATE

National Union successfully urged the trial judge to reduce the jury's $10 million punitive damages verdict on the basis of *BMW*. As explained previously, the trial judge used federal constitutional law to reduce the punitive damages award even though the trial judge determined that National Union had ample notice that its egregious conduct could support a large punitive damages award, and even though National Union had never argued that it lacked adequate notice of the size of the award a jury might render.

In fact, this case included one very unusual feature not found in most punitive damage cases. That is, National Union's own designated claims handling expert told the jury about other cases where National Union had been subjected to punitive damages verdicts. In those cases, the awards were far larger: $43 million and $14 million. App. 28. One of those cases even involved an effort by National Union to retroactively reduce coverage.

National Union cannot seriously argue that it lacked adequate notice that efforts to retroactively remove coverage by creating fabricated fraudulent documents could subject it to a $10 million punitive damages award. Likewise, National Union has never argued that the State of California lacks a strong state interest in preserving the integrity of the insurance claims process and deterring

insurance company fraud, an interest that justified and required significant punitive damages.

Instead, National Union took *BMW*'s three guideposts and tried to divorce them from the end-point of the analysis. In this way, National Union avoided the key determination *BMW* requires: whether the defendant has *fair notice* that its conduct could result in a substantial punitive damages award.

To the extent that another level of independent review of federal punitive damages law is required, it would seem that reinstatement of the jury's $10 million verdict is appropriate.

This is because National Union's post-accident falsification and fabrication of documents (followed by a cover-up) involves the kind of egregious reprehensible conduct that this Court evaluated in *TXO Production Corp. v. Alliance Resources Corp.*, 509 U.S. 443 (1993). This case did not involve the kind of generally lawful conduct that was at issue in *BMW* or *Cooper*.

In *TXO*, this Court determined that a $10 million punitive damages award was constitutional even though the defendant's conduct had only caused $19,000 in actual damages. Although the Court acknowledged that the punitive damages award was 526 times as large as the actual damages award, the *TXO* Court found the jury's verdict to be constitutionally valid for the following reasons:

1. The award was based on conduct constituting "bad faith" and affirmative "fraud, trickery and deceit." (509 U.S. at 462);
2. When the potential harm was considered along with the amount of money TXO felt it might be saving itself by engaging in affirmative fraud, the ratio dropped substantially (*id.* at 460-62); and
3. In view of TXO's $2.2-$2.5 billion wealth, strong medicine was required (*id.* at 450, n. 9 and 462).

Just as in *TXO*, National Union's conduct involved affirmative and deliberate deceit. Fraud was then compounded by efforts to conceal the wrongdoing. The ratio between punitive and compensatory damages was actually much *lower* in this case than it was in *TXO*. And both cases involved a defendant whose fraud was in part motivated by a desire to save itself substantial sums of money. Finally, TXO was certainly wealthy, but not nearly as wealthy as National Union.

Beyond *TXO*, this case included evidence that other punitive awards had failed to deter National Union. And in contrast to the arms-length transaction addressed in *TXO*, National Union was a state-licensed insurer that was obligated to treat policyholders with utmost good faith and fair dealing.

Ultimately, even if the Court of Appeal here failed to independently evaluate federal law issues, the only difference a new, independent review could make is the possible reinstatement of jury's $10 million punitive damages verdict. After all, the trial court reduced the punitive damages despite finding that National Union had never even argued that it lacked fair notice that efforts to fabricate fraudulent documents in order to retroactively remove coverage could result in a $10 million punitive damages award. And *BMW* itself distinguishes cases involving affirmative fraudulent wrongdoing. In explaining why it was reversing the punitive damages award in *BMW*, this Court said "the record in this case discloses no deliberate false statements, acts of affirmative misconduct, or concealment of evidence of improper motive, such as were present in *Haslip* and *TXO*." *BMW*, 517 U.S. at 579.

This case involved deliberate, affirmative fraud by an insurance company that was duty-bound to act with utmost

good faith and fair dealing. The $1.7 million punitive damages award was not constitutionally invalid, and neither was the jury's $10 million punitive damages verdict.

CONCLUSION

National Union's petition should be denied. National Union waived the one argument advanced in its petition. And National Union invited the alleged "error" that it is complaining about now.

The California Court of Appeal independently assessed federal law punitive damages principles. And the California Court of Appeal was aware of the fact that those federal standards differ from state law standards.

Even if the California Court of Appeal had not independently assessed federal issues pertaining to punitive damages, the already substantially reduced $1.7 million punitive damages award would be constitutionally valid, regardless of the applicable standard of review. And finally, because this case involved affirmative, deliberate fraud, the jury's $10 million punitive damages award was within the constitutionally valid range prescribed by *TXO*.

National Union's petition should be denied. To the extent this Court believes that yet another level of independent review is required, it should return the case with instructions to reinstate the jury's $10 million punitive damages verdict.

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INDEX TO APPENDIX

Excerpt from National Union's opening brief, filed July 14, 1997 ..... App. 1

Excerpt from Textron's opening brief, filed Dec. 3, 1997 ..... App. 13

Excerpt from Textron's respondent's brief, filed Dec. 17, 1997 ..... App. 31

Excerpts from National Union's reply brief, filed May 29, 1998 ..... App. 36

Excerpt from Textron's reply brief, filed Sept. 15, 1998 ..... App. 43

National Union's petition for rehearing, filed Feb. 14, 2001 ..... App. 50

Order denying petition for rehearing ..... App. 55

National Union's motion to stay issuance, filed May 4, 2001 ..... App. 56

Textron's opposition to motion to stay issuance, filed May 9, 2001 ..... App. 61

Order denying motion to stay issuance ..... App. 70

Statutory Provisions Involved ..... App. 71

G020323

IN THE COURT OF APPEAL
OF THE STATE OF CALIFORNIA

FOURTH APPELLATE DISTRICT
DIVISION THREE

TEXTRON FINANCIAL CORPORATION, a Delaware Corporation,

Plaintiff and Respondent,

vs.

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA,

Defendant and Appellant.

APPEAL FROM THE SUPERIOR COURT FOR ORANGE COUNTY
RAYMOND J. IKOLA, JUDGE (CASE NO. 734096)

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES iv

INTRODUCTION AND SUMMARY OF ARGUMENT 1

STATEMENT OF FACTS 3

A. TRM, Acting as National Union's Agent, Issues A Policy Insuring A Fleet of Buses Operated By Il Sung Ko 3

B. To Reduce His Premiums, Ko Asks That Two Of His Buses, Including The Bus Financed By Textron, Be Taken Off The Policy 5

C. Ko Allows The Textron Financed Bus To Be Driven And It Is Involved In An Accident. Ferguson And TRM Tell Ko The Bus Is Not Covered. TRM Refuses To Retroactively Reinstate Coverage 8

D. Based On Advice From Ferguson And TRM That The Bus Was Deleted, AIAC's Portland Office Denies Coverage For The Accident 9

E. After Ko Defaults On The Loan, Textron Sues Him For The Balance Due And Presents A Claim To National Union 10

F. Based On Information From Ferguson And TRM That The Bus Was Deleted Before The Accident, National Union Denies Textron's Claim 11

G. Textron Accuses National Union Of Bad Faith And Threatens To Deprive It Of Millions Of Dollars In Future Business Unless The Claim Is Paid 14

H. Quinlan Speaks To John Lavin, An AIG Underwriter, And Spangenberg, TRM's President. Spangenberg Tells Her The Bus Was Deleted Before The Accident. Lavin Advises Quinlan That She Should Consult Coverage Counsel Concerning The Effect Of The Deletion..... 16

I. National Union Retains Coverage Counsel. Based On The Information Provided By TRM, Coverage Counsel Advises That The Claim Was Properly Denied..... 18

J. Textron Presents Evidence that TRM And Ferguson Concealed From National Union And Textron The Fact That The Bus Had Not Been Deleted..... 19

PROCEDURAL HISTORY 23

STATEMENT OF APPEALABILITY 26

LEGAL DISCUSSION 27

I. THE PUNITIVE DAMAGE AWARD SHOULD BE REVERSED 27

A. Introduction 27

B. TRM Was Not National Union's Managing Agent 27

C. National Union Did Not Ratify TRM's Conduct 32

D. The Judgment Should Be Reversed With Directions Because National Union's Own Conduct Will Not Support An Award Of Punitive Damages 34

E. Even If There Was Some Evidence To Support A Punitive Damage Award Based On National Union's Own Conduct, The Court Committed Prejudicial Error By Instructing That National Union Could Be Vicariously Liable for TRM's Conduct ... 44

II. THE TRIAL COURT ERRONEOUSLY REFUSED TO OFFSET THE SETTLEMENTS WITH TRM AND FERGUSON AGAINST THE COMPENSATORY DAMAGE AWARD 48

A. To Prevent Double Recovery, National Union Was Entitled To Have Its Contractual Liability Offset By The Settlements 48

B. National Union Was Also Entitled To A Setoff Against Its Tort Liability. Textron, Not National Union, Had The Burden Of Proving That The Settlement Included Nonduplicative Damages 52

III. BECAUSE NATIONAL UNION WAS ENTITLED TO AN OFFSET, THE *BRANDT* FEE AND PUNITIVE DAMAGE AWARDS MUST BE REVERSED 55

IV. THE $1.7 MILLION PUNITIVE AWARD VIOLATES NATIONAL UNION'S RIGHT TO DUE PROCCESS UNDER THE FOURTEENTH AMENDMENT TO THE UNITED STATES CONSTITUTION AND IS EXCESSIVE UNDER CALIFORNIA LAW 58

CONCLUSION 65

* * *

IV. THE $1.7 MILLION PUNITIVE AWARD VIOLATES NATIONAL UNION'S RIGHT TO DUE PROCESS UNDER THE FOURTEENTH AMENDMENT TO THE UNITED STATES CONSTITUTION AND IS EXCESSIVE UNDER CALIFORNIA LAW.

In Honda Motor Co., Ltd. v. Oberg (1994) 512 U.S. 415 [129 L.Ed.2d 336, 114 S.Ct. 2331], the United States Supreme Court, recognizing that "punitive damages pose an acute danger of arbitrary deprivation of property," held that judicial review of the size of a punitive damage award is mandated by the due process clause of the United States Constitution. (*Id.* at p. ___ [114 S.Ct. at p. 2340]; see also *Adams v. Murakami* (1991) 54 Cal.3d 105, 118 [recognizing a "constitutional mandate for meaningful judicial scrutiny of punitive damages awards"]; *Las Palmas Associates v. Las Palmas Center Associates* (1991) 235 Cal.App.3d 1220, 1258 ["Appellate courts must scrutinize punitive damage verdicts because they 'constitute a windfall, create the anomaly of excessive compensation, and are therefore not favored in the law' "].)

No punitive damages are warranted in this case. Even if they are, the $1.7 million award is excessive.

In *BMW of North America, Inc. v. Gore, supra,* ___ U.S. ___ [134 L.Ed.2d 809, 116 S.Ct. 1589], the United States Supreme Court identified three "guideposts" for evaluating whether punitive damage awards are constitutionally excessive: "degree of reprehensibility" (*id.* at p. ___ [116 S.Ct. at p. 1599); "ratio [of punitive damages] to the actual harm inflicted on the plaintiff" (*id.* at p. 1601); and

"civil or criminal penalties that could be imposed for comparable misconduct" (*id.* at p. 1603). Following *BMW*, the courts nationwide have applied its three guideposts to reverse or substantially reduce punitive damage awards. (See, e.g., *Management Computer Services, Inc. v. Hawkins, Ash, Baptie & Co.* (1996) 206 Wis.2d 157, ___ [557 N.W.2d 67, 82] [$1.75 million award reduced to $650,000 because defendant's conduct, although "both grievous and malicious," caused only economic injury].) In *BMW* itself, the Alabama Supreme Court on remand held that punitive damages awarded because the defendant "suppressed a material fact" could not exceed $50,000, even though previously it had held $2,000,000 was appropriate. (*BMW of North America, Inc. v. Gore,* 1997 Ala. LEXIS 126.)

As we have shown, the jury probably awarded punitive damages on account of TRM's conduct, not the conduct of the AIAC adjustors. (*Ante,* § I.E.) But, regardless of the basis for the award, when examined in light of the three *BMW* guideposts, it violates National Union's right to due process under the Fourteenth Amendment. It is also excessive under California law.

First, *BMW* held that "the degree of reprehensibility of the defendant's conduct" is "[p]erhaps the most important indicium of the reasonableness of a punitive damage award." (*BMW of North America, Inc. v. Gore, supra,* ___ U.S. at p. ___ [116 S.Ct. at p. 1599].) Even if TRM was National Union's managing agent and National Union therefore is technically responsible for its conduct, National Union's own behavior does not involve "the high degree of culpability that warrants a substantial punitive damages award." (*Id.* at p. 1601.) If TRM

engaged in post-accident underwriting, its conduct was reprehensible. But National Union's liability for that conduct is derivative, not direct. It cannot discipline TRM because TRM is not National Union's employee and a large award is unnecessary to deter National Union from further dealings with TRM – it ceased doing business with TRM in January of 1995. Indeed, Textron settled with TRM for only $62,500. What possible justification can there be for letting the actual wrongdoer off the hook for $62,500 while socking its principal, who at most was derivatively liable, with a $1.7 million penalty?

If the jury's punitive damage award was based on the conduct of AIAC's adjusters, the excessiveness of a $1.7 million punitive award is even clearer. At most, the adjusters denied a single property damage claim based on a misreading of the insurance policy. Just as in *BMW*,

> "none of the aggravating factors associated with particularly reprehensible conduct is present. The harm . . . was purely economic in nature . . . . [National Union's] conduct evinced no indifference to or reckless disregard for the health and safety of others. To be sure, infliction of economic injury, especially when done intentionally through affirmative acts of misconduct, . . . or when the target is financially vulnerable, can warrant a substantial penalty. *But this observation does not convert all acts that cause economic harm into torts that are sufficiently reprehensible to justify a significant sanction in addition to compensatory damages.*"

(*BMW of North America, Inc. v. Gore, supra,* ___ U.S. at p. ___ [116 S.Ct. at p. 1599], emphasis added.)

Unlike the typical plaintiff in an insurance bad faith action, Textron was not "financially vulnerable." (*Ibid.*) It is a "sophisticated" entity "with the financial resources to weather . . . sharp business practices." (*Las Palmas Associates v. Las Palmas Center Associates, supra,* 235 Cal.App.3d at p. 1255.) Like the insured in *Slottow v. American Cas. Co.* (9th Cir. 1993) 10 F.3d 1355, where the court disallowed any punitive damages in a suit by a bank against an insurance company, Textron has "ready access to legal advice and controls substantial assets, placing it on relatively equal footing with [National Union]." (*Id.* at p. 1362.) Just as in *Slottow,* neither Textron nor National Union "faced a threat to its existence or financial stability because of this dispute; each simply went about its business while the controversy percolated." (*Ibid.;* see also *Seeley v. Seymour* (1987) 190 Cal.App.3d 844, 867 ["the parties here were sophisticated businessmen of relatively equal bargaining strength. The situation at bar thus carries a lesser degree of 'reprehensibility' than the more typical punitive damage case where a large or sophisticated business enterprise uses its wealth or power to exploit the weak or the unwary"].)

Moreover, *BMW* recognized that "repeated misconduct is more reprehensible than an individual instance of malfeasance." (*BMW of North America, Inc. v. Gore, supra,* ___ U.S. at p. ___ [116 S.Ct. at pp. 1599, 1600].) Here, as we have shown, there was no evidence that National Union had ever previously received, let alone denied, a claim by a loss payee who did not receive advance notice of a cancellation or deletion. (RT. pp. 2223-2224, 4858.)

Second, $1.7 million in punitive damages cannot be justified by the ratio of punitive damages to the actual

harm inflicted on Textron. In *Pacific Mut. Life Ins. Co. v. Haslip* (1991) 499 U.S. 1 [113 L.Ed.2d 1, 111 S.Ct. 1032], the United States Supreme Court explained that a ratio of 4.2 to I between punitive and compensatory damages is "close to the line" of constitutional impropriety. (*Id.* at pp. 23-24.) In *Cates Construction, Inc. v. Talbot Partners* (1997) 53 Cal.App.4th 1420, the most recent pronouncement on punitive damages by a California appellate court, the court, citing *BMW*, held that "a ratio in the order of nine to one . . . can be said to be 'close to the line' of federal constitutional impropriety" and accordingly reduced the punitive award to five times the actual economic harm caused by the insurer's bad faith conduct. (*Id.* at p. 1460.)[35] Here, The $1.7 million award is approximately 96 times Textron's actual loss, $17,683.60. (See *ante*, § III.) Although the award is approximately 10 times the $165,000 compensatory damage award, the latter figure overvalues Textron's true loss because the trial court erroneously allocated the $89,000 in pretrial settlements to nonduplicative damages. (*Ante*, § II.) Moreover, even

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[35] In *TXO Production Corp. v. Alliance Resources Corp.* (1993) ___ U.S. ___ [125 L.Ed.2d 366, 113 S.Ct. 2711], the United States Supreme Court upheld against a due process challenge to a ratio of not more than 10 to 1 between compensatory and punitive damages. There the punitive award was $10 million and the harm to the victim that would have ensued if the tortious plan had succeeded was at least $1 million. Moreover, the United States Supreme Court noted that the defendant had a history of "nefarious activities in its business dealings" (*id.* at p. ___ [113 S.Ct. at pp. 2716-2717]) and the punitive award was intended to punish not just the defendant's conduct in that case, but its general manner of doing business. (*Id.* at p. ___ [113 S.Ct. at pp. 2722-2723].)

without an offset, the ratio between the punitive award and the tort damages (*Brandt* fees) is over 19 to 1. As *Haslip* and *Cates* demonstrate, whether the ratio in this case is 96 to 1, 19 to 1 or 10 to 1, it crosses the line of constitutional impropriety.[36]

Ratios between compensatory and punitive damages considerably lower than 96 to 1 or even 10 to 1 have also been held excessive under California law. (See e.g., *Little v. Stuyvesant Life Ins. Co.* (1977) 67 Cal.App.3d 451, 469-470 [reversal of punitive award 14 times greater than compensatory damages unless remittitur to amount 1.5 times greater accepted]; *Allard v. Church of Scientology* (1976) 58 Cal.App.3d 439 [reversal of punitive award 5 times greater than compensatory damages unless remittitur to amount in 1 to 1 ratio accepted].) In the insurance context, ratios 10 to 1 or greater have generally been upheld only where the compensatory award was significantly under $100,000 (see, e.g., *Moore v. American United*

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[36] In determining whether the punitive award is excessive, the proper comparison is between that award and the tort damages, not the combined contract and tort award. This is so because "[an] award of punitive damages is not supported by a verdict based on breach of contract. . . . " (*Myers Building Industries, Ltd. v. Interface Technology, Inc.* (1993) 13 Cal.App.4th 949, 960; accord *Crogan v. Metz* (1956) 47 Cal.2d 398, 405; see Civ. Code, § 3294, subd. (a).) Because the contract damages were not awarded as compensation for tortious breach of the covenant of good faith and fair dealing, they cannot support the punitive award. Indeed, Textron was entitled to *Brandt* fees only for recovering policy benefits, i.e., contract damages. (*Brandt v. Superior Court, supra,* 37 Cal.3d 813.) Textron cannot treat policy benefits as contract damages for purposes of awarding *Brandt* fees and at the same time treat them as tort damages for purposes of calculating a punitive damage award.

Life Insurance Co. (1984) 150 Cal.App.3d 610; *Pistorius v. Prudential Ins. Co.* (1981) 123 Cal.App.3d 541; *Neal v. Farmers Ins. Exchange* (1978) 21 Cal.3d 910; *Wetherbee v. United Ins. Co. of America* (1971) 18 Cal.App.3d 266) and/or in cases involving especially egregious or widespread company practices. (See, e.g., *Moore v. American United Life Ins. Co., supra,* 150 Cal.App.3d 610; *Downey Savings & Loan Assn. v. Ohio Casualty Ins. Co.* (1987) 189 Cal.App.3d 1072.) Even these cases, of course, predate the United States Supreme Court's decision in *BMW.*

Third, turning to the civil or criminal penalties that could be imposed for comparable misconduct, the maximum statutory penalty established for insurance bad faith is $10,000. (Ins. Code, § 790.035.) Even a willful violation of a cease and desist order risks a maximum penalty of merely $55,000. (Ins. Code, § 790.07.) The Legislature evidently concluded a million dollar award is unnecessary to sufficiently punish and deter such bad faith conduct.

Finally, although National Union has substantial assets, ability to pay, in and of itself, cannot be used to justify a "multimillion dollar award." (*Adams v. Murakami, supra,* 54 Cal.3d at p. 111, fn.2.) As the United States Supreme Court explained in *BMW:*

> "The fact that a multimillion dollar penalty prompted a change in policy sheds no light on the question whether a lesser deterrent would have adequately protected the interests of Alabama consumers. In the absence of a history of noncompliance with known statutory requirements, there is no basis for assuming that a

> more modest sanction would not have been sufficient to motivate full compliance. . . . " (*BMW of North America, Inc. v. Gore, supra,* ___ U.S. at p. ___ [116 S.Ct at p. 1603].)

In short, the United States Supreme Court focuses on the *least* amount that will deter, not on *any* amount that will deter that the defendant can afford. Here, *no* punitive damages are necessary for deterrence. National Union ceased doing business with TRM, the actual wrongdoer, long before this case came to trial, and modified its own procedures regarding notices to loss payees before the jury announced its punitive damage award. (R.T. pp. 4857-4858.) If any penalty is necessary to deter future misconduct, that penalty is substantially less than $1.7 million.

* * *

4th Civil No. G020323

IN THE COURT OF APPEAL OF THE
STATE OF CALIFORNIA

FOURTH APPELLATE DISTRICT

DIVISION THREE

TEXTRON FINANCIAL CORPORATION,

Plaintiff, Respondent, Cross-Appellant (and Separate Appellant),

vs.

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA, et al.

Defendants and Appellants.

On Appeal From The Superior Court of
Orange County
Hon. Raymond J. Ikola
Case No. 734096

TEXTRON'S OPENING BRIEF ON ITS CROSS-APPEAL

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TABLE OF CONTENTS

I. *INTRODUCTION* 1

A. ISSUES ON CROSS-APPEAL 1

II. *STATEMENT OF FACTS* 2

A. THE COMPLAINT AND THE DEMURRERS 3

B. THE TRIAL AND THE VERDICT 3

C. TEXTRON'S STATUTORY SETTLEMENT OFFER 4

D. THE BRANDT FEE LIMITATION 5

E. THE CONDITIONAL REMITTITUR 6

III. *ARGUMENT* 7

A. TEXTRON SHOULD HAVE BEEN ALLOWED TO PURSUE CLAIMS FOR UNFAIR BUSINESS PRACTICES 7

B. THE TRIAL COURT'S REDUCTION OF THE JURY'S PUNITIVE DAMAGES VERDICT WAS IMPROPER 8

1. *The Trial Court's Conditional Remittitur Was Contrary to Law* 8

2. *The Trial Court's Erroneous Limitation of Textron's Attorney Fee Damages Greatly Increased the Punitive/Compensatory Ratio* 9

3. *The Decisions Relied on By The Trial Court Were Not Apt or Controlling* 12

4. *The Jury's Verdict Was Appropriate Even If The Compensatory Damages Are Not Increased* 21

C. THE TRIAL COURT IMPROPERLY LIMITED TEXTRON'S BRANDT FEE DAMAGES..... 26

1. *When Attorney's Fees Are Awarded As Damages. The Reasonable Value of the Services Determines The Amount*..... 27

2. *Reasonable Attorney's Fees Are Determined Primarily By The Time Spent On The Case*..... 28

3. *Public Policy Is Not Served By Limiting The Recovery of Fees Merely Because the Attorney Had A Contingent Fee Agreement.* 30

4. *In Other Situations Where The Attorney Had A Contingent Fee Agreement, Courts Have Awarded A Fee Based Upon The Reasonable Value of The Attorney's Services*..... 31

D. IT WAS ERROR FOR THE TRIAL COURT TO INVALIDATE THE SECTION 998 OFFER WHICH TEXTRON MADE JOINTLY TO NATIONAL UNION AND AIAC 32

IV. *CONCLUSION* 36

* * *

3. The Decisions Relied on By The Trial Court Were Not Apt Or Controlling.

In it's reduction of punitive damages, the court relied primarily on two cases – *BMW of North America, Inc. v. Gore* (1996) 116 S.Ct. 1589 and *Rosener v. Sears, Roebuck & Co.* (1980) 110 Cal.App.3d 740. (C.T. 4826.) From the comparison of the punitive damages figure to the compensatory damages award, the trial court concluded that the 60:1 ratio created a "presumption" that the jury acted from passion or prejudice. (C.T. 4826.) In this analysis, the court's reliance on *BMW* and *Rosener* was misplaced.

In *BMW*, a $2 million punitive damages judgment was assessed against *BMW* because it did not disclose that it had made $600 in paint repairs to a car it sold. The Alabama Deceptive Practices Act authorized a $2,000 civil penalty for BMW's alleged conduct. 116 S.Ct. at 1603. However, BMW's conduct was perfectly legal in most states. *Id.* at 1596, fn. 13.

There are several reasons *BMW* is inapplicable to this case. Perhaps most significantly, *BMW* expressly distinguished cases involving deliberate false statements or other affirmative misconduct. As the *BMW* court explained, "the record in this case discloses no deliberate false statements, acts of affirmative misconduct, or concealment of evidence of improper motive, such as were present in *Haslip* and *TXO*." *Id.*, at 1601. In sharp contrast to *BMW*, this case included substantial clear and convincing evidence of egregious affirmative misconduct, including the post-claim alteration of an insurance policy, concealment and destruction of evidence, and sustained efforts to conceal the misconduct. When it expressly distinguished *TXO*, the *BMW* court necessarily distinguished the case at bench.

In addition, *BMW* emphasized that any assessment of punitive damages must start with an evaluation of the state's interest the award is designed to serve. Only when "an award can fairly be categorized as 'grossly excessive' *in relation to these interests*" does it violate due process. *Id.* Different classes of cases require differing assessments. *Id.* at 1595. (emphasis added). This case and *BMW* are in different classes.

California's interest in deterring state-licensed insurance businesses from fraudulent, bad faith claims practices is significantly greater, and far more urgent, than Alabama's interest in deterring non-disclosure of $600 paint repairs on luxury cars.[5] California even uses punitive damages to help it police insurance companies. It affirmatively requires policyholders such as Textron to report punitive damage verdicts to the Insurance Commissioner. Civ. Code § 3296.

Finally, the trial court analyzed *BMW*'s "three guideposts" without placing them in proper context. These guideposts are (1) reprehensibility of the conduct; (2) disparity between harm or potential harm and the punitive damages award; and (3) the amount of civil penalties authorized or imposed in other cases. Reprehensibility is the most important. 116 S.Ct. at 1598.

BMW held that in some circumstances an award of punitive damages that is "grossly excessive" can violate due process of law because a person is entitled to "fair notice not only of the conduct that will subject him to punishment but also of the severity of the penalty that a State may impose." *Id.* at 1598.

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[5] California courts have often noted that insurance contracts are different than ordinary commercial contracts. Insurance policies serve a quasi-public purpose. There is a "special relationship" between the insurer and the insured. And, unlike the vast majority of contracts, insurance policies are not purchased to secure commercial advantage, but to protect against calamity. See, e.g., *Foley v. Interactive Data Corp.* (1988) 47 Cal.3d 654, 684-85.

But, the trial court reduced the jury's verdict despite concluding that National Union did indeed have fair notice that its misconduct could result in imposition of substantial punitive damages. As the court explained:

> "Surely National Union does not contend, nor can it, that it did not have fair notice that the breach of the covenant of good faith and fair dealing could result in the imposition of substantial punitive damages under the common law." (C.T. 4828.)

The other case the trial court emphasized in reducing the jury's verdict was *Rosener v. Sears, Roebuck & Co* (1980) 110 Cal.App.3d 740. With the exception of some mathematical similarities, *Rosener* bears no relationship to this case. In *Rosener*, liability was based largely on the *negligence* of Sears in completing construction contracts after one of its contractors had financial problems. *Id.* at 747. Unlike the present case, *Rosener* involved no deliberate misconduct, no affirmative misrepresentations, no fabricated documents, and no destruction of evidence. In addition, there was no evidence that earlier punitive damage awards had failed to deter the defendant's conduct.

In addition, one of the issues in *Rosener* was that the jury was not instructed on the requirement that the punitive damages bear a reasonable relationship to the harm. *Id.* at 753. In contrast, the jury in the present case received such instruction. (C.T. 3837.)

Rosener also was the kind of case that is more likely to generate jury passion or prejudice – a "little guy" up against a big company. *Id.* at 747. As the United States Supreme Court explained in *Honda Motor Co. v. Oberg*

(1994) 512 U.S. 415, 114 S.Ct. 2331, 129 L.Ed.2d 336, the basic reason for post-trial review of punitive damage awards is that juries may be tempted to "use their verdicts to express biases against big businesses, particularly those without strong local presences." 512 U.S. at 432. That possibility was not present in this case. In complete contrast to *Rosener*, both parties in this case were big businesses, and National Union repeatedly reminded the jury of that fact.

Rosener's mathematical similarity to this case is not controlling. Instead, courts invariably rule that a mathematical formula is *not* an appropriate way to review a punitive damages verdict. See, e.g., *Devlin v. Kearney Mesa AMC/Jeep/Renault, Inc.* (1984) 155 Cal.App.3d 381, 390 (The "calculation of punitive damages does not involve strict adherence to a rigid formula."); *Adams v. Murakami* (1991) 54 Cal.3d 105, 112 ("The determination of whether an award is excessive is admittedly more art than science."); *Pacific Mut. Life Ins. Co. v. Haslip*, (1991) 499 U.S. 1, 18 ("We cannot . . . draw a mathematical bright line between the constitutionally acceptable and the constitutionally unacceptable.").

While the trial court misapplied *BMW* and *Rosener*, it did not apply other cases that involved factual scenarios more like this case. For example, in *TXO, supra*, the United States Supreme Court upheld a jury's $10 million punitive damages verdict in a case involving only $19,000 in actual damages, a ratio of 526:1. (509 U.S. at 446-47.)

Much as National Union did in this case, TXO apparently tried to fabricate false documents (*Id.* at 449), and engaged in fraud, trickery and deceit. *Id.* at 453. When a

case involves fabrication of documents and concealment and destruction of evidence, as this case did, a $10 million punitive damages verdict is very appropriate. This is especially true since National Union conducts its business under a license granted by the State of California, and because it's net worth ($3.7 billion) was half again as large as the net worth of TXO ($2.5 billion). *TXO*, 509 U.S. 443, 451, fn. 9.

By isolating the mechanical application of a mathematical formula involving the ratio of punitive to compensatory damages, the trial court failed to give full consideration to the factors identified in *BMW, TXO* and other cases. For example, in *Downey Savings & Loan Assoc. v. Ohio Cas. Ins. Co.* (1987) 189 Cal.App.3d 1072, 1097, the court upheld a $5 million punitive damages award on compensatory damages of $152,000 – a 32.7:1 ratio. The *Downey Savings* court noted the obvious. Unlike plaintiffs in many punitive damages cases, the plaintiff in *Downey Savings* was a large corporation (like Textron). It was *not* a plaintiff likely to arouse the jury's passion, prejudice, or even sympathy. *Id.* at 1099.

This case is much like *Downey Savings*. The jury that decided this case was repeatedly told that Textron was a big company. National Union told the jury that this case was between "two big boys," and (falsely) that Textron was larger than AIG. (R.T. 4891.) Even National Union's retained claim handling expert took time to remind the jury that Textron was a "multi-billion dollar entity." (R.T. 3847.) The jury was told that the case involved two large corporations, both of whom are headquartered out of state. (R.T. 939, 1653.) The jury was even told that it was Textron who was picking on the "little guy." (R.T. 562.)

National Union went so far as to tell the jury that it was Textron, rather than National Union, who drove Mr. Ko into bankruptcy. (R.T. 563.)[6]

Another important factor deserved consideration. In *TXQ*, the court held that "possible harm to other victims that might have resulted if similar future-behavior were not deterred" is an appropriate consideration. 509 U.S. at 460. As an insurer willing to commit blatant after-the-fact fraud to deny claims, National Union poses a serious threat not just to Textron, Ko, and CNA – the parties it injured in this particular instance – but to all California

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[6] Ironically enough, if anyone appealed to passion and prejudice, it was National Union. With theatrics right out of a bad episode of "Perry Mason," National Union actually had one witness set her watch alarm while testifying. When the alarm sounded, the witness casually told the jury she had to "get to church on time." (R.T. 3050.)

National Union's counsel often tried to divert attention away from the facts and toward emotions. For example, National Union's counsel took time to ask Rochelle Ware about the "fact" that she went back to her office to catch up on her work during court recesses. (R.T. 2496.) The jury was even told about Ms. Ware's child care responsibilities. (R.T. 2497-98.)

During closing arguments in Phase II, National Union's counsel asked the jury to focus on the local claims people who became involved with the file (Rochelle Ware, Ella Quinlan and Tom Lyons), rather than National Union's Home Office personnel such as Division 20 Director, Larry Kelly, John Lavin or Don Schmitz, and TRM's president, Tom Spangenberg. National Union told the jury it wouldn't find a "sweeter, kinder person than Rochelle Ware." And National Union told the jury that a "bad-faith finding would be with them all their lives." (R.T. 4656-57.) So if passion or prejudice played any part in the jury's punitive damages verdict, it most likely reduced the verdict.

residents unlucky enough to be involved in a claim where AIG has issued the coverage.

In addition to the insufficient *Brandt* fee award mentioned previously, there was also the potential for more economic harm in this case. Had passengers been on the bus when the accident occurred, National Union's fraudulent "deletion" endorsement would have been asserted to avoid payment of the policy's $5 million in liability insurance, plus defense costs.[7]

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[7] National Union's policy included $5 million in liability insurance. (Ex. 198, p. 38.) All certificate holders were additional insureds for liabilities arising out of the operations of the named insured. (Ex. 198, p. 45.) Textron was a certificate holder. (Ex. 4.) So its liability insurance protection was $5 million. If the accident had occurred *after* the bus had picked up the stranded passengers, people would have been hurt and Textron (or Ko) may have needed every penny of the $5 million liability limits. The evidence suggested that part of National Union's motive for trying to retroactively remove coverage may have emanated from a concern that the accident included personal injury liabilities, perhaps sufficient to threaten the National Union/TRM bus program itself. For example, Longuil's "memo for the record" mentioned that he "would not be surprised that we receive a personal injury claim on this one." (Ex. 30.) And Longuil mentioned the concern that if coverage was afforded "it could possibly jeopardize [our] program." (Ex. 80, p. 6.)

Mr. Longuil had also pointed out that because the Public Utilities Commission had obviously not been notified of any purported decision, any liability claim, including the claim made by CNA (the company who insured the truck that was hit by the Textron bus), would have to be paid. (Ex. 30.) Nevertheless, National Union denied both the collision and the liability claims on February 24, 1993. (Ex. 43.) National Union did not call Longuil as a witness at trial.

National Union knew there was coverage for this accident, but it found out it was dealing with some unsophisticated claimants – an insured who didn't speak English and a broker who really didn't know the details of lay-up credits (the particular underwriting practice involved). So National Union took advantage of their relative ignorance and denied the claims. When Textron started asking questions, a "deletion" endorsement was fabricated, and other damaging evidence was removed, withheld, and ultimately destroyed.

Punitive damage awards must be large enough to deter the defendant (and others) from similar future misconduct. *Adams v. Murakami* (1991) 54 Cal.3d 105, 110 (the purpose of punitive damages "is to punish wrongdoing" and protect against "future misconduct, either by the same defendant or other potential wrongdoers."). See also *TXO, supra,* 509 U.S. at 460-461. It is difficult to imagine how a $1.7 million award can affect a company that makes a *net profit* of $850,000 a day, seven days a week, 365 days a year. (R.T. 4902; Ex. 240.)

During the trial of this case (46 days), National Union generated *net* profits of over $39,000,000 – almost four times the jury's $10 million verdict – 23 times more than the trial court's $1.7 million remittitur. National Union had already made its $1.7 million back before the third day of trial even started. Perhaps that is why AIG routinely tells shareholders in its annual report that while it is commonly subjected to punitive damages claims, it "does not believe that such litigation will have a material effect on its operating results and financial condition." (C.T. 4775.)

Finally, the trial court failed to consider the fact that isolating attention on the ratio of punitive damages to compensatory damages actually rewards and encourages conduct such as National Union's. As Textron explained in its opposition to National Union's motion for new trial, one reason National Union resisted Textron so fiercely was that it knew the claim was relatively small. (C.T. 4285.) It knew it could make Textron spend a lot more than the $65,000 before Textron would ever recover a penny. So National Union believed that if it could hold out long enough, Textron would decide to drop the matter.

The fact that a malicious defendant can take particular advantage of a situation involving a relatively small claim may be particularly likely in the insurance context. It is certainly one significant reason courts have held that the ratio between punitive and compensatory damages is less important when the compensatory damages are relatively small. See, e.g., *Downey Savings*, 189 Cal.App.3d at 1098 ("In that situation, a large award of punitive damages would be necessary to ensure that the defendant does not repeat his act and that others do not follow his example.").

The trial court's exclusive focus on the ratio sends the wrong message to National Union, and other insurers. It encourages them to deny claims arbitrarily when the plaintiffs claim is small, comfortable in the belief that even if the jury finds bad faith and malice, punitive damages will still be limited.

There was nothing to distinguish this case from *TXO* or *Downey Savings*, and the trial court erred in concluding

that the jury's $10 million punitive damages verdict was the result of passion or prejudice. So, even if the trial court made a proper ruling when it decided to limit Textron's attorney fee damages to just a little over $30,000, it still failed to consider the reprehensibility of National Union's behavior, and the other potential harm that could have been suffered by Textron (or others) as a result of that behavior.

4. The Jury's Verdict Was Appropriate Even If The Compensatory Damages Are Not Increased

Even if the trial court's remittitur had not included improper conditions, and even if Textron's *Brandt* fee damages could properly be viewed as being limited to $30,268, the trial court still had no basis for concluding that the jury's $10 million punitive damages verdict was "clearly erroneous." By statute, the trial court was not permitted to conditionally reduce the punitive damages verdict unless the evidence established that the jury's verdict was "*clearly* erroneous." Code Civ. Proc. § 657 (emphasis added). See *Big Boy v. County of San Diego* (1984) 154 Cal.App.3d 397, 405 (A new trial is appropriate only if the record is sufficient to convince "the trial judge the jury *clearly* should have reached a different decision.") (emphasis added).

In this instance, many factors supported the jury's $10 million verdict. First, the reprehensibility of the misconduct fell at the extreme end of the spectrum. As National Union's counsel explained during closing argument, if the jury determined National Union fabricated the "deletion" endorsement after the fact in an effort to

remove coverage retroactively that "would be pretty vile." (R.T. 4642.) That is exactly what the evidence showed and what the jury determined. National Union knowingly fabricated a purported "deletion" endorsement after the bus accident to make it appear there was no coverage.

National Union knew it had implemented a lay-up credit, in fact, and had reinstated the entire policy *before* the accident.

National Union also destroyed and tampered with evidence. For example, as National Union's counsel put it, "some idiot" destroyed the Portland claim file jacket. (R.T. 4645, 2970-71.) The jury knew there was no legitimate reason for National Union to destroy the file jacket. (R.T. 3616.) It was entitled to conclude that National Union destroyed the file jacket during the litigation because it contained information National Union preferred to conceal from the jury.

Letters about the lay-up credit, including references to the "much easier way of doing it," were removed from the underwriting file before it was produced to Textron. (R.T. 1623-24.)

Even when National Union gave Textron a purported "copy" of the "deletion" version of endorsement No. 8, a "mailing certificate" was placed over the creation date before it was sent to Textron. National Union wanted Textron to have the impression the document was created in 1992 (before the January 7, 1993 accident), when in fact it was actually created much later, after the accident. (Exs. 189, 33; R.T. 614-15.)

For seven months, National Union flatly refused to give Textron – its own additional insured and designated loss payee – a copy of the policy. In March of 1994 National Union's Home Office sent AIAC – but not Textron – a copy of the original policy. (R.T. 606-07, 965-72, 2312-13.) The original policy did not include any "deletion" endorsement No. 8; the endorsement No. 8 in the original policy was only a *credit* endorsement. It did not purport to eliminate coverage for the bus. (Ex. 198, p. 67.)

In August of 1994, when it finally gave Textron a policy, National Union created a so-called "certified" policy in which it replaced the original credit endorsement with a "deletion" endorsement. (Ex. 78, p. 42.) National Union did not produce its original Home Office policy (with the credit endorsement) until after the lawsuit was underway and Textron had filed a motion to compel production of documents. (C.T. 148-280.)

And although its fraudulent scheme was clearly exposed, National Union was not, and still is not, the least bit repentant. Except for National Union, every defendant in the case seemed to acknowledge some degree of fault. Ferguson admitted he had not given Textron good service. (R.T. 836.) After moving its program to a different insurance company, TRM acknowledged that suspensions did not remove physical damage coverage. (Ex. 107.) Even AIAC said it would make some changes. (R.T. 4858.)

Only National Union insisted and continues to insist that it did nothing wrong. The head of National Union's Division 20 – the Division that issued this policy – inexplicably testified that the fabricated deletion version of

endorsement No. 8 was a "courtesy" National Union performed for Textron. (R.T. 1739.) And the adjuster who testified that National Union would withhold Textron's claim payment as a means of "litigation posturing" said the same thing. (R.T. 2680.) He said National Union was doing Textron a favor by sending the fabricated "deletion" endorsement after the accident, so Textron wouldn't "get screwed." (R.T. 2650-51.)

No insured should be forced to endure such outrageous behavior. The reprehensibility of the conduct of this state-licensed insurer in its post-claim alteration of the policy, fabrication of documents, and concealment and destruction of evidence, was severe, sustained, and outrageous. This was deliberate insurance fraud.[8]

Next, unlike most (or perhaps all) cases where courts have reduced punitive damages verdicts, in this case, there was evidence of National Union's recidivism. This was not the first time National Union faced imposition of punitive damages for bad faith claims handling. In fact, it was not the first time National Union faced punitive damages for trying to retroactively terminate coverage in order to avoid paying claims. (R.T. 158.) Claims handling experts for both Textron and National Union testified about larger punitive damage verdicts against National Union – $43 million and $14 million – but those verdicts

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[8] If a policyholder got caught perpetrating such a fraud, he could wind up in prison for several years. See, e.g., Pen. Code § 550 (providing penalties of up to five (5) years imprisonment, plus fines, for knowingly making false or misleading statements in support of (or in opposition to) a claim for insurance benefits).

didn't stop it from committing fraud to support its unjust and manufactured denials of the claims here. (R.T. 3451-53; 3511, 3517-18; 3808-11.)

The testimony of Textron's expert was supported by National Union's own claims handling expert, James Roberts. Mr. Roberts agreed that National Union makes bad faith claims handling a practice. (R.T. 3830-31.) He explained that National Union routinely "lies to all of its policyholders about being open-minded." (R.T. 3828-30.)

In addition, the jury knew it would take a significant award just to get National Union's attention. Robert Thomas was designated as National Union's most knowledgeable person concerning claims handling. Despite the fact that the claims addressed in *Helfand v. National Union Fire Ins.* Co. (1992) 10 Cal.App.4th 869, 879, resulted in a "judgment against National Union" that included "$43 million in punitive damages," Mr. Thomas testified that he had never even heard of *Helfand*. (Ex. 237, p. 47.)[9]

Ms. Quinlan, a claim manager actively involved with Textron's claim, testified that she had to read about the *Helfand* decision in the newspapers because it was not discussed internally at AIG. (R.T. 2992-95.)

This kind of evidence permitted the jury to conclude either that National Union had no training procedures to

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[9] In *Helfand* the appellate court upheld the finding of bad faith based on National Unions efforts to avoid payment by canceling coverage after it discovered "Big Problems," but the punitive damages verdict was reversed because of other, unrelated errors. 10 Cal.App.4th at 878, 904. Textron understands the case was subsequently settled on confidential terms.

help guard against future malicious misconduct against policyholders, or worse, that National Union made a conscious effort to keep its employees ignorant of substantial verdicts against National Union. As Textron's expert testified, open discussion of company misconduct in other cases is critical for proper training of claims handlers. (R.T. 3453.)

The jury was also aware that despite such egregious misconduct, no one at National Union was ever criticized for his or her work on the Textron claim. In fact, during the trial, employees boasted they were proud of the way National Union handled the claim. (R.T. 3235.)

Textron's expert testified that the lack of criticism of employees showed not only that National Union endorsed and ratified the conduct, but that National Union had a corporate culture that tolerated (or even condoned or rewarded) bad faith conduct against policyholders. (R.T. 3494-96.) The jury certainly was entitled to conclude that the corporate culture at National Union involves "an unwillingness and inability, apparently, to simply fess up to a problem and address it." (R.T. 3494.) One employee testified that it is company policy *not* to acknowledge mistakes. (R.T. 2950.)

No trial court could have rationally concluded that this jury's punitive damages verdict was *clearly* the result of passion or prejudice or that $1.7 million would have the necessary deterrent effect.

* * *

4th Civil No. G020323

IN THE COURT OF APPEAL
OF THE STATE OF CALIFORNIA

FOURTH APPELLATE DISTRICT

DIVISION THREE

TEXTRON FINANCIAL CORPORATION,

Plaintiff, Respondent, Cross-Appellant (and Separate Appellant),

vs.

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA, et al.

Defendants and Appellants.

On Appeal From The Superior Court of Orange County
Hon. Raymond J. Ikola
Case No. 734096

TEXTRON'S RESPONDENT'S BRIEF

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TABLE OF CONTENTS

I. INTRODUCTION 1

II. STANDARD OF REVIEW 2

III. STATEMENT OF FACTS 3

A. THE PARTICIPANTS 3

B. THE EVENTS 5

IV. ARGUMENT 7

A. NATIONAL UNION'S APPEAL SHOULD BE SUMMARILY REJECTED BECAUSE IT HAS INACCURATELY DESCRIBED THE RECORD 7

1. National Union's Policy Switch 7

2. National Union's New York Underwriters .. 10

3. Witness Credibility 11

4. Destruction of Evidence 12

5. The Underwriting File 13

6. National Union's Motive 14

B. NATIONAL UNION'S HOME OFFICE UNDERWRITERS KNEW THERE WAS NO PRE-ACCIDENT DELETION 17

C. TRM WAS A MANAGING AGENT FOR NATIONAL UNION 21

1. TRM Had Discretion Over the Primary Bus Program 22

a. TRM's Underwriting Discretion 22

b. TRM's Claim Discretion 23

c. The Agency Agreement Confirmed TRM's Broad Authority 24

2. National Union's Cases Are Not Persuasive 25

D. NATIONAL UNION RATIFIED TRM'S CONDUCT 26

E. NATIONAL UNION IS NOT ENTITLED TO AN OFFSET 29

1. There Was No "Double Recovery" 30

2. The Policy Requiring An Insurer to Promptly Pay Claims Outweighs Any Concerns About Possible Double Recovery By the Insured... 32

3. The Finding of Malice, Fraud, And Oppression Precludes Any Conceivable Offset 34

4. National Union Was Not A Joint Tortfeasor or Co-Obligor 34

5. Even If National Union Had Been Entitled To An Offset, Punitive Damages Would Not Be Affected 35

F. THE EVIDENCE SUPPORTED PUNITIVE DAMAGES 36

G. THE PUNITIVE DAMAGES AWARD WAS NOT EXCESSIVE 43

V. CONCLUSION 44

* * *

G. THE PUNITIVE DAMAGES AWARD WAS NOT EXCESSIVE

In section 3.B. of its cross-appeal, Textron explains why the jury's $10 million dollar punitive damages verdict was appropriate, and indeed, should be reinstated. Of necessity, therefore, those same points establish that

the award of $1.7 [sic] ultimately granted by the trial court was excessive. Rather than repeat arguments, Textron simply incorporates by this reference section 3.B. of its Opening Brief on its Cross-Appeal as if set forth in full. (pp. 8-26.)

To argue against punitive damages, National Union assumes that it did nothing wrong, and only TRM engaged in wrongdoing. But Textron has already demonstrated National Union's involvement in denying the claim and ratifying TRM's actions.

National Union's reliance on *Slottow v. American Cas. Co.* (9th Cir. 1993) 10 F.3d 1355, is erroneous. *Slottow* did not hold that insurance companies are free to commit fraud against corporate policyholders, secure in the knowledge that they are immune from punitive damages. In *Slottow*, the record did not support any "finding that the insurance company acted fraudulently." *Id.* at 1362. Here, by contrast, National Union committed fraud. Likewise, while in *Slottow* there was no "showing that [the insurer] acted with malice" the jury found not just that National Union had acted with malice, but that it also had acted with fraud and oppression.

The fact Textron is a substantial corporation with assets may have indicated to the jury that a significant deterrent was required precisely because if left unchecked, the same tactics National Union used against Textron might put smaller insureds out of business.

National Union's argument it did not have fair notice of the possibility of a multi-million dollar punitive damages award because of the comparable civil and criminal penalties is erroneous for two reasons. The evidence

showed National Union had already been subjected to far larger punitive damages verdicts as a result of its bad faith claims handling, so it had more than adequate notice. In addition, National Union has inaccurately argued the maximum civil or criminal penalty that might be imposed for similar misconduct is $55,000. To the contrary, the maximum criminal penalty for insurance fraud is 5 years imprisonment, *plus* a $50,000 fine. Pen. Code § 550. The maximum civil penalty that can be imposed by the California Insurance Department can include suspension or revocation of a license or certificate – a penalty that would cost National Union far more than the jury's $10 million dollar punitive damages verdict.[43] Ins. Code § 790.07.

* * *

---

[43] National Union again argues that for purposes of assessing punitive damages, its misconduct must be divided between damages caused by its breach of contract, and damages caused by its tortious wrongdoing. National Union forgets an insurer's unreasonable breach of contract *is* tortious. (R.T. 4829-36; C.T. 3702-08.)

G020323

IN THE COURT OF APPEAL
OF THE STATE OF CALIFORNIA
FOURTH APPELLATE DISTRICT
DIVISION THREE

TEXTRON FINANCIAL CORPORATION,
a Delaware Corporation,

Plaintiff and Respondent,

vs.

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA,

Defendant and Appellant.

APPEAL FROM THE SUPERIOR COURT FOR ORANGE COUNTY
RAYMOND J. IKOLA, JUDGE (CASE NO. 734096)

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES iii

INTRODUCTION 1

LEGAL DISCUSSION 3

I. TRM WAS NOT NATIONAL UNION'S MANAGING AGENT 3

II. NATIONAL UNION DID NOT WAIVE ITS OBJECTIONS TO THE ERRONEOUS MANAGING AGENT INSTRUCTIONS 7

III. THE JUDGMENT CANNOT BE UPHELD ON THE ALTERNATIVE BASIS OF RATIFICATION 8

IV. TEXTRON'S SETTLEMENTS WITH TRM AND FERGUSON SHOULD HAVE BEEN OFFSET AGAINST THE COMPENSATORY DAMAGE AWARD 14

V. BECAUSE NATIONAL UNION WAS ENTITLED TO AN OFFSET, THE *BRANDT* FEE AND PUNITIVE DAMAGE AWARDS MUST BE REVERSED 20

VI. HALF TRUTHS, DISTORTIONS, AND MISSTATEMENTS OF THE RECORD ARE THE ONLY SUPPORT FOR TEXTRON'S CLAIM THAT NATIONAL UNION FABRICATED DOCUMENTS AND WAS INVOLVED IN A COVERUP 22

VII. NATIONAL UNION'S CLAIMS HANDLING DID NOT EVEN AMOUNT TO BAD FAITH, LET ALONE SUPPORT PUNITIVE DAMAGES 30

VIII. THE $1.7 MILLION PUNITIVE DAMAGE AWARD VIOLATES NATIONAL UNION'S FEDERAL DUE PROCESS RIGHTS AND IS EXCESSIVE UNDER CALIFORNIA LAW 33

CROSS-RESPONDENT'S BRIEF AND RESPONDENT'S BRIEF ON SEPARATE APPEAL 41

I. THE DISMISSAL OF TEXTRON'S CLAIM UNDER BUSINESS AND PROFESSIONS CODE SECTION 17200 SHOULD BE AFFIRMED 41

II. ASSUMING PUNITIVE DAMAGES ARE PROPER AT ALL AND THAT THE $1.7 MILLION AWARD IS NOT EXCESSIVE, THE TRIAL COURT'S REMITTITUR SHOULD BE AFFIRMED 50

A. The Trial Court Properly Ordered A New Trial On All Issues If Textron Did Not Consent To A Remittitur 50

B. The Trial Court Properly Found That The Jury's $10 Million Punitive Damage Award Was Excessive 53

III. THE TRIAL COURT PROPERLY LIMITED *BRANDT* FEES TO THE AMOUNT ACTUALLY INCURRED BY TEXTRON TO RECOVER POLICY BENEFITS 55

IV. THE TRIAL COURT PROPERLY GRANTED NATIONAL UNION'S MOTION TO TAX THE EXPERT WITNESS FEES CLAIMED BY TEXTRON 62

V. THE TRIAL COURT PROPERLY ENTERED JUDGMENT FOR AIAC 64

VI. AIAC WAS ENTITLED TO ITS COSTS AS A PREVAILING PARTY 68

CONCLUSION 70

INTRODUCTION

The principal issue on this appeal is whether the trial court erred by instructing that TRM was National Union's managing agent under Civil Code section 3294. If the instruction was erroneous, the punitive damage award must be reversed so long as there was "a *reasonable chance,* more than an *abstract possibility*" (*College Hospital Inc. v. Superior Court* (1994) 8 Cal.4th 704, 715) the jury would not have awarded punitive damages absent the error.

* * *

B. The Trial Court Properly Found That The Jury's $10 Million Punitive Damage Award Was Excessive.

Our discussion as to why even the remitted $1.7 million punitive damage award violates National Union's federal due process rights and is excessive under California law (A.O.B. § IV; A.R.B., § VIII) disposes of Textron's contention that the trial court erred in remitting the jury's $10 million punitive damage award. If $1.7 million is too high, *a fortiori* it would be improper to reinstate the jury's $10 million award. Rather than repeat our arguments as to why even the $1.7 million award is excessive, we incorporate those arguments by reference.

Even if $10 million were not excessive as a matter of law, the trial court's remittitur should not be reversed. As the Supreme Court explained in *Neal v. Farmers Ins. Exchange, supra,* 21 Cal.3d 910:

> "[W]hen a trial court grants a new trial on the issue of excessive damages, whether or not such order is conditioned by a demand for reduction, the presumption of correctness normally accorded on appeal to the jury's verdict is replaced by a presumption in favor of the order. . . . 'whatever may be the rule which should govern the trial judge, it is certain that when his action in granting a new trial on the ground of excessive damages, or requiring a reduction of the amount as the condition of denying one, comes to be reviewed on appeal, his order will not be reversed unless it plainly appears that he abused his discretion;. . . . ' . . . The reason for this is that the trial court, in ruling on the motion, sits not in an appellate

capacity but as an independent trier of fact." (*Id.* at pp. 932-933.)

No abuse of discretion occurred here. Textron's attack on the remittitur assumes that National Union actively conspired with TRM to fabricate documents and conceal the existence of a lay-up credit. We do not believe there is any evidence to support this hypothesis. (See A.R.B., § VI.) Indeed, as we have explained, this was not even Textron's theory at trial. But even if there was *some* evidence to support Textron's conspiracy theory, the trial court, sitting "as an independent trier of fact" (*Neal v. Farmers Ins. Exchange, supra,* 21 Cal.3d at p. 933), properly could find that no conspiracy occurred.

The trial court's comments made clear it did not believe National Union was directly involved in any alleged coverup. Following the jury's finding that National Union acted with fraud, malice and oppression, the trial court remarked: "I think it's more likely that the jury found National Union in the soup here because of TRM. . . . " (R.T. p. 4814.) And, at the new trial hearing, the trial court indicated that, in its view, National Union's own wrongful conduct consisted of failing to make "an independent decision whether this policy covered Textron's interest quite apart from what Ko had done." (R.T. p. 4990.)

In *BMW of North America, Inc. v. Gore, supra,* 517 U.S. 559 [134 L.Ed.2d 809, 116 S.Ct. 1589], the United States Supreme Court held that "the degree of reprehensibility of the defendant's conduct" is "[p]erhaps the most important indicium of the reasonableness of a punitive damage award." (*Id.* at p. ___ [116 S.Ct. at p. 1599].) If National

Union did not conspire with TRM to manufacture documents and instead was guilty only of what the trial court believed was an unreasonable interpretation of its policy, "the degree of reprehensibility of [its] conduct" was low if not non-existent. Because the trial court's conclusion that there was no conspiracy between National Union and TRM was supported by substantial evidence, it did not abuse its discretion in holding that the jury's $10 million punitive damage award was excessive.

* * *

4th Civil No. G020323

IN THE COURT OF APPEAL OF THE
STATE OF CALIFORNIA
FOURTH APPELLATE DISTRICT
DIVISION THREE

TEXTRON FINANCIAL CORPORATION,

Plaintiff, Respondent, Cross-Appellant (and Separate Appellant),

vs.

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA, et al.

Defendants and Appellants.

On Appeal From The Superior Court of Orange County
Hon. Raymond J. Ikola
Case No. 734096

TEXTRON'S REPLY BRIEF ON ITS CROSS-APPEAL

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TABLE OF CONTENTS

		Page
I.	INTRODUCTION	1
II.	THE TRIAL COURT'S REMITTITUR ORDER WAS ERRONEOUS	5
III.	THERE WAS NO INSTRUCTIONAL ERROR	7
IV.	THE EVIDENCE SUPPORTED THE JURY'S PUNITIVE DAMAGES ASSESSMENT	14
	A. THE HOME OFFICE POLICY DID NOT SUPPORT NATIONAL UNION	15
	B. NATIONAL UNION HAD THE UNDERWRITING FILE	18
	C. NATIONAL UNION HAD NO LEGITIMATE REASON TO DESTROY PARTS OF THE PORTLAND CLAIM FILE	21
	D. NATIONAL UNION HAD ACCESS TO ELECTRONIC COVERAGE INFORMATION	21
	E. THE JURY DID NOT FIND LEE MOON'S TESTIMONY CREDIBLE	23
	F. LICENSE PLATES ARE ONLY REQUESTED FOR LAY-UP CREDITS	23
V.	SUBSTANTIAL EVIDENCE SUPPORTED THE JURY'S ASSESSMENT OF PUNITIVE DAMAGES	25
	A. TRM WAS A MANAGING AGENT	26
	B. NATIONAL UNION WAS DIRECTLY INVOLVED IN A WRONGDOING	28

C. THE FAILURE TO INVESTIGATE PROVIDES INDEPENDENT SUPPORT FOR PUNITIVE DAMAGES AGAINST AN INSURANCE COMPANY 29

D. NATIONAL UNION RATIFIED ALL MISCONDUCT TOWARD TEXTRON 33

VI. BMW V. GORE DID NOT MANDATE THE TRIAL COURT'S DRASTIC REDUCTION OF PUNITIVE DAMAGES 35

VII. THE SPECIAL VERDICT DID NOT EXONERATE AIAC 39

VIII. A CONTINGENT FEE AGREEMENT DOES NOT GOVERN THE AMOUNT OF THE BRANDT FEE AWARD 40

A. TEXTRON DID NOT RECEIVE FREE LEGAL SERVICES 41

B. NATIONAL UNION DID NOT RESERVE THE RIGHT TO HAVE A JURY DETERMINE THE BRANDT FEES 43

C. NATIONAL UNION MISSTATES THE RECORD REGARDING REASONABLENESS OF TEXTRON'S FEES 44

IX. TEXTRON'S SECTION 998 SETTLEMENT DEMAND WAS VALID 46

X. THE TRIAL COURT ERRED BY SUSTAINING NATIONAL UNION'S DEMURRER TO TEXTRON'S UNFAIR BUSINESS PRACTICES CAUSE OF ACTION 48

XI. CONCLUSION 48

* * *

VI. BMW V. GORE DID NOT MANDATE THE TRIAL COURT'S DRASTIC REDUCTION OF PUNITIVE DAMAGES

National Union's arguments praising the trial court's reduction of punitive damages demonstrate a key reason why the jury's $10,000,000 punitive damage award was required. National Union's relentless attacks against Textron, in the face of extraordinary insurer misconduct, convinced the jury that nothing less would get National Union's attention.

National Union again devotes much attention to the United States Supreme Court decision of *BMW of North America v. Gore* (1996) 517 U.S. 559, 134 L.Ed.2d 809, 116 S.Ct. 1589. But there are several reasons why *BMW* did not necessitate the trial court's drastic reduction of the jury's verdict.

First, *BMW* did not overrule cases that *affirm* similar punitive damages awards in similar situations. The *BMW* Court stated:

> "[T]he record in this case discloses no deliberate false statements, acts of affirmative misconduct, or concealment of evidence of improper motive, such as were present in *Haslip* and *TXO*. . . . [T]he omission of a material fact may be less reprehensible than a deliberate false statement. . . . " (116 S.Ct. at 1601.)

Unlike *BMW*, this case included affirmative and deliberate false statements, concealment (and even destruction) of evidence, and a bitter attack on a policyholder by an insurance company that had a duty to treat the policyholder fairly and with utmost good faith.

In distinguishing affirmative misconduct cases, the *BMW* Court noted that BMW's conduct was perfectly legal in many states. *Id.* at 1594. National Union cannot argue that insurance fraud is legal in even one state.

Second, the trial court's use of *BMW* to reduce the jury's punitive damages verdict was erroneous because *BMW*'s focus concerned "fair notice" of "the severity of the penalty that States may impose." 116 S.Ct. at 1598. The trial court erred when it used *BMW* to drastically reduce the jury's verdict even though it expressly found that National Union had fair notice that its conduct could result in imposition of substantial punitive damages. (C.T. 4828.)

Finally, California's interest in deterring state-licensed insurers from committing insurance fraud against policyholders is significantly greater, and much more urgent, than Alabama's interest in deterring car manufacturers from failing to disclose that they repaired a car's paint job before it was sold. *BMW* recognized that there will be "different classes of cases." *Id.* at 1595. But, in this case, the trial court reduced the jury's verdict without considering that *BMW* and this case represented two cases in very different classes, and without considering that the state interests at issue differed dramatically.[13]

---

[13] This explains why only eight days after it decided *BMW*, the Supreme Court denied certiorari to review a $14 million punitive damages award rendered against an insurance company under California law. See *Chemstar, Inc. v. Liberty Mut. Ins. Co.* (9th Cir. 1994) 1994 Westlaw 650018, *cert. denied*, May 28, 1996, 134 L.Ed.2d 948.

BMW expressly held that it is only when an award is "grossly excessive" in relation to state interests the award will promote that it "enter[s] the zone of arbitrariness that violates the due process clause of the Due Process Clause of the Fourteenth Amendment." *Id.* at 1594. In this case, the trial court's exclusive focus on the ratio of punitive to compensatory damages could not justify the conclusion that the jury's award was "grossly excessive," particularly in view of the reprehsnible [sic] nature of the misconduct toward Textron.

National Union strings together a long list of cases involving reduced punitive damages awards, as if the issue should be decided by the number of cases a party can cite. However, those cases have little similarity to this case. For example, several reduced the amount of punitive damages because the award was excessive in comparison to *the defendant's ability to pay*. See, e.g., *Kim v. Dial Service Int'l, Inc.* (S.D.N.Y. 1997) 1997 U.S.Dist. LEXIS 12544, at page 15 (*47) (supervisor guilty of harassment did not have a large net income, and the corporate employer was losing money).

In this case, the defendant's $3.7 billion net worth was an important factor supporting the jury's award of punitive damages. While a large punitive damages award may be subject to reduction when the defendant has limited means, a larger award is *required* when the defendant is wealthy, or else it will have relatively little deterrent effect. *Stevens v. Owens-Corning Fiberglass Corp.* (1996) 49 Cal.App.4th 1645, 1658 ("The wealthier the wrongdoer, the larger the punitive damage award must be to meet the goals of punishment and deterrence.").

And like *BMW*, many cases National Union lists involved conduct that was little more than negligent. For example, in *Apache Corp. v. Leo Moore* (1997) 1997 Tex. App. LEXIS 4031, at page 5 (*7) the Texas court reduced the award pursuant to a Texas statute limiting the ratio of compensatory and punitive damages in *negligence* cases. See also *Leab v. Cincinnati Ins. Co.* (E.D.Pa. 1997) 1997 U.S. Dist. LEXIS 8868, at page 14 (*40) (punitive damages based on delay, even though the insurer's position was correct, and the insurer paid the amount due under the policy).

National Union does not cite any case where a court reduced a substantial punitive damages award under circumstances similar to this case. The reprehensible nature of the conduct, and California's strong interest in deterring similar abuses by National Union and other California insurers, justified the jury's $10 million punitive damages assessment.

* * *

G020323

IN THE COURT OF APPEAL
OF THE STATE OF CALIFORNIA
FOURTH APPELLATE DISTRICT
DIVISION THREE

TEXTRON FINANCIAL CORPORATION
a Delaware Corporation,

Plaintiff and Respondent,

vs.

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA,

Defendant and Appellant.

PETITION FOR REHEARING

Defendant and appellant National Union Fire Insurance Company of Pittsburgh,Pennsylvania, respectfully petitions for rehearing following the court's January 29, 2001 opinion. The petition is made on the ground the court omitted and misstated material facts.[1]

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[1] Rule 29(b), California Rules of Court, provides: "As a matter of policy, on petition for review the Supreme Court normally will not consider: . . . (2) any issue or any material fact that was omitted from or misstated in the opinion of the Court of Appeal, unless the omission or misstatement was called to the attention of the Court of Appeal in a petition for rehearing."

Specifically:

1. The opinion omits the fact that the general agency agreement between National Union and TRM International (TRM) provided that TRM had "no authority to investigate, defend, approve or deny any claim made against [National Union] . . . and . . . no authority to assign an adjuster or attorney to investigate or defend any claims" (Ex. 170, ¶ 8.)

2. The opinion states that "the basis of the denial [of Textron's claim] was that Ko deleted the bus from the policy before the accident, and TRM and AIAC concluded National Union's policy did not obligate it to give [Textron] advance notice of the deletion." (Typewritten Opn., p. 4.) This statement inaccurately attributes to TRM a role in the denial of coverage. TRM did not advise National Union and AIAC that Textron was not entitled to advance notice of the deletion. Rather, TRM simply advised National Union and AIAC of the facts – that the bus had been deleted. AIAC and National Union made the decision that the policy did not entitle Textron to advance notice of the deletion. (See, e.g., R.T. p. 4076 [testimony of National Union underwriter John Lavin] Q: "And did [Ella Quinlan of AIAC] discuss with you and Mr. Spangenberg [of TRM] what the consequences of that time line was in terms of coverage for the accident to the bus?" A: "Yes. She discussed it. But I didn't offer any answer for it. I'm not sure Tom [Spangenberg] did. He just matter of factly told her the time line and, I guess, she listened."]; See also Exs. 58, 59, 229, 230; R.T. pp. 2253, 2324, 2328-2330, 2809, 3055-3056.)

3. The opinion states: "[W]hen Ko submitted a claim on the bus, TRM . . . advised AIAC to deny the claim. Furthermore, TRM's president was in contact with both AIAC and senior management of the division handling National Union's bus program when [Textron's] claim was being considered, and participated in the ultimate decision to deny it." (Typewritten Opn., p. 20.) This statement once again inaccurately attributes to TRM a role in the denial of coverage. TRM merely advised AIAC and National Union that the bus had been deleted from the policy before the January 7, 1993 accident. It did not advise AIAC or National Union that as a consequence either Ko's or Textron's claim should be denied. Those coverage decisions were made by AIAC and National Union. (See ¶ 2, *ante;* see also Ex. 505, p. 10; R.T. pp. 1426-1429.)

4. The opinion states that "[o]n February 4, TRM sent AIAC a notice verifying coverage for the bus" (Typewritten Opn., p. 4), that "AIAC directed its employees to contact TRM when seeking coverage verification" (Typewritten Opn., p. 20), and that "TRM initially issued a coverage determination. . . . (*Ibid.*) These statements fail to fully describe TRM's function when it was asked to provide a coverage verification. Upon receiving a request for a coverage verification from AIAC, a low level TRM employee would simply review the policy's schedule of vehicles and determine whether the vehicle in question was listed. (R.T. pp. 1644-1645.) Coverage "determinations," e.g., how policy provisions should be interpreted, or whether a claim should be paid, were made by AIAC, not TRM. (Exh. 170, ¶ 8.)

5. The opinion states that "on December 1, TRM reinstated the policy effective as of November 27. The bus encumbered by [Textron's] security interest was one of the vehicles Ko intended to use. [Textron] did not receive notice of the policy reinstatement with the endorsement which reflected Ko's business received a premium credit due to the vehicle's non-use. National Union claimed it sent a copy of this endorsement to plaintiff, but plaintiff denied receiving it." (Typewritten Opn., p. 3.) This statement is inaccurate and misleading for two reasons. First, the reinstatement notice and the endorsement were two separate documents. The reinstatement notice was issued by TRM on December 2, 1992 (Ex. 20) and the endorsement was prepared by TRM on February 11, 1993 (Ex. 38). Second, and more significantly, National Union never claimed that it sent either document to Textron. Rather, TRM claimed to have mailed a copy of the endorsement to Textron. (Ex. 78, p. 42.)

Accordingly, rehearing should be granted or the opinion corrected as indicated.

Dated: February 13, 2001

Respectfully submitted,

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COURT OF APPEAL – STATE OF CALIFORNIA

FOURTH APPELLATE DISTRICT

DIVISION THREE

TEXTRON FINANCIAL CORP.,
Plaintiff and Respondent,

v.

NATIONAL UNION FIRE INSURANCE CO.,
Defendant and Appellant.

G020323

Sup. Ct. No. 734096

ORDER

(Filed Feb. 27, 2001)

The petition for rehearing is DENIED.

/s/ Rylaarsdam, J.
RYLAARSDAM, J.

WE CONCUR:

/s/ Sills, P.J.
SILLS, P.J.

/s/ O'Leary, J.
O'LEARY, J.

G020323

IN THE COURT OF APPEAL
OF THE STATE OF CALIFORNIA
FOURTH APPELLATE DISTRICT
DIVISION THREE

TEXTRON FINANCIAL CORPORATION
a Delaware Corporation,

Plaintiff and Respondent,

vs.

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA,

Defendant and Appellant.

MOTION TO STAY ISSUANCE OF REMITTITUR PENDING PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES SUPREME COURT

Pursuant rule 25(c), California Rules of Court, defendant and appellant National Union Fire Insurance Company of Pittsburgh, Pennsylvania (National Union) hereby moves for an order staying issuance of the remittitur pending disposition by the United States Supreme Court of a petition for writ of certiorari. This motion is based on the accompanying memorandum of points and

authorities and the accompanying declaration of Peter Abrahams.

Respectfully submitted,

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By /s/ Peter Abrahams
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NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA

MEMORANDUM OF POINTS AND AUTHORITIES

ISSUANCE OF THE REMITTITUR SHOULD BE STAYED TO PERMIT NATIONAL UNION TO SEEK REVIEW BY THE UNITED STATES SUPREME COURT.

In this case, National Union appealed from a judgment for $165,414.40 in compensatory damages and $1.7 million in punitive damages in favor of plaintiff and respondent Textron Financial Corporation (Textron). On January 29, 2001, this court affirmed that judgment. National Union's petition for review was denied by the California Supreme Court on May 2, 2001. (No. S095924.) The judgment will therefore become enforceable upon

filing of the remittitur. (See Code Civ. Proc., § 917.1, subd. (b).)

Under normal circumstances, the clerk of the Court of Appeal issues the remittitur "upon expiration of the period during which review in the Supreme Court may be determined. . . . " (Cal. Rules of Court, rule 25(a).) However, "[a] reviewing court, for good cause, may stay the issuance of a remittitur for a reasonable period." (Cal. Rules of Court, rule 25(c).) The effect of such a stay is "to delay the date when jurisdiction would normally be revested in the lower court for enforcement of the judgment. . . . " (9 Witkin, Cal. Proc. (4th ed. 1997) Appeal, § 735, p. 764.) "The main reason [to stay issuance of a remittitur] is to allow an opportunity for further review in the United States Supreme Court." (*Ibid.;* see also *Stevens Drilling co. v. Superior Court* (1936) 16 Cal.App.2d 435 [stay until United States Supreme Court passes on petition]; *Matthews v. Superior Court* (1989) 209 Cal.App.3d 155, 161, fn. 4; *Rosenthal v. Wilner* (1988) 197 Cal.App.3d 1327, 1333.)

There is good cause to stay issuance of the remittitur in this case because National Union should have the opportunity to petition the United States Supreme Court for certiorari on an issue presently pending before that court. In its petition for review in the California Supreme Court, National Union raised the issue whether this court satisfied its duty under the Due Process Clause of the Fourteenth Amendment to the United States Constitution to independently review the punitive damage award by stating the $1.7 million award was not excessive because the conduct in question was "reprehensible" and National Union was wealthy. We argued that this court

was required by the federal Due Process Clause to independently review the punitive damage award for excessiveness in light of the three "guideposts" delineated by the United States Supreme Court in *BMW of North America, Inc. v. Gore* (1996) 517 U.S. 599: The *degree* of reprehensibility of the conduct, the ratio of punitive damages to the actual harm inflicted on the plaintiff, and the civil or criminal penalties that could be imposed for comparable misconduct. (*Id.* at pp. 574-584.)

In *Cooper Industries, Inc. v. Leatherman Tool Group, Inc.* (No. 99-2035, cert. granted October 10, 2000, oral argument held February 26, 2001), the issue presented is "What is the standard of review of a trial court's ruling on a challenge to the constitutionality of a punitive damage award?" Because of the similarity of issues, National Union believes it is likely the United States Supreme Court will act favorably upon a petition for certiorari in this case.

There will be no prejudice to Textron from issuance of a stay. National Union has posted an undertaking in the full amount required by statute to stay enforcement of the judgment which will remain in force during the pendency of any proceedings before the United States Supreme Court, and the judgment will earn interest at the statutory rate until the judgment is paid. Thus, Textron

will be fully secured and confronts no risk of loss created by the relief requested herein.

Respectfully submitted,

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Case No.

G020323

IN THE COURT OF APPEAL OF THE STATE OF CALIFORNIA

FOURTH APPELLATE DISTRICT, DIVISION THREE

TEXTRON FINANCIAL CORPORATION,

Plaintiff and Appellant,

v.

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA et al.,

Defendants and Appellants.

OPPOSITION TO MOTION TO STAY ISSUANCE OF REMITTITUR

Appeal from a Judgment of the
Superior Court of Orange County
Raymond J. Ikola, Judge
(Super. Ct. No. 734096)

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TABLE OF CONTENTS

Introduction 1

Argument

I National Union Has Failed to Establish a Reasonable Probability That Four Supreme Court Justices Would Vote to Grant Certiorari 1

II National Union Has Failed to Establish Any Likelihood That the Judgment Would Be Reversed 2

III National Union Has Failed to Establish Irreparable Harm 4

Conclusion 5

TABLE OF AUTHORITIES

Cases

Graves v. Barnes (1972)
405 U.S. 1201 2

Leatherman Tool Group, Inc. v. Cooper Industries, Inc.
(9th Cir. Dec. 17, 1999, Nos. 98-35147, 98-35415)
1999 U.S. App. Lexis 33657 3

Packwood v. Senate Select Committee on Ethics (1994)
510 U.S. 1319 ..... 1, 2, 4

Other Authorities

California Rules of Court, rule 29(b)(2) 2

Eisenberg, Horvitz & Wiener, Cal. Practice Guide:
Civil Appeals & Writs (TRG 2000) § 14:30 1

INTRODUCTION

National Union's motion to stay issuance of the remittitur should be summarily denied. National Union has not even tried to address the criteria necessary to justify a stay. To warrant a possible stay of issuance of the remittitur, National Union must show: (1) a reasonable probability that four United States Supreme Court Justices would vote to grant certiorari; (2) a significant possibility that the United States Supreme Court would reverse the existing judgment; and (3) a likelihood of irreparable harm if issuance of the remittitur was not stayed.

In addition, the "good cause" requirement means that a stay cannot be justified without "a showing of some *extraordinary reason* for retaining appellate court jurisdiction and further delaying lower court proceedings on the judgment. . . . " (Eisenberg, Horvitz & Wiener, Cal. Practice Guide: Civil Appeals & Writs (TRG 2000) § 14:30, italics in original.)

National Union's motion does not address these issues. Instead, National Union simply says it wants to file a petition for certiorari with the United States Supreme Court. Because National Union's motion is wholly inadequate, Textron urges this court to deny National Union's motion and issue the remittitur.

ARGUMENT

I

National Union Has Failed to Establish a Reasonable Probability That Four Supreme Court Justices Would Vote to Grant Certiorari.

The first requirement for a party seeking a stay of a judgment in these circumstances is a showing of reasonable probability that four justices would vote to grant certiorari. (See, e.g., *Packwood v. Senate Select Committee on Ethics* (1994) 510 U.S. 1319, 1319.)

Instead of making an effort to satisfy this requirement, National Union simply says one case that was already argued raised a "similar" issue. National Union does not explain the facts or circumstances of the other case that create this alleged "similarity" of issues. Nor does National Union explain why an unrelated case would generate a grant of certiorari in this case.

While National Union now seems to be arguing that this court's written opinion was not long enough (and that it did not specifically refute each and every aspect of the arguments the parties raised in several hundred pages of briefing), National Union waived this argument by failing to raise it in the petition for rehearing it filed on February 14, 2001. (See Cal. Rules of Court, rule 29(b)(2).)

In addition, National Union raised the same invalid argument it wants to make in the United States Supreme Court in its petition for review to the California Supreme Court. Not surprisingly, our Supreme Court denied National Union's petition, and there is no reason to

believe another court would treat National Union's improper argument any differently.

II

National Union Has Failed to Establish Any Likelihood That the Judgment Would Be Reversed.

A second requirement for any party seeking stay pending a possible filing of a petition for certiorari is the showing of a "significant possibility that the Court would reverse the judgment below." (*Packwood, supra,* 510 U.S. at p. 1319; see also *Graves v. Barnes* (1972) 405 U.S. 1201, 1203-1204.)

National Union's motion seem to imply (but does not actually say) that the case of *Cooper Industries, Inc. v. Leatherman Tool Group, Inc.* (No. 99-2035) could control the outcome of this case. It cannot.

The question presented in *Cooper* is: "What is the standard of review of a trial court's ruling on a challenge to the unconstitutionality of a punitive damage award?" (*Cooper,* brief for petitioner at p. i; copy of brief attached as ex. A.)[1] This issue arose because the Ninth Circuit, in affirming a trial court's ruling, held that "the district court did not abuse its discretion in declining to reduce the amount of punitive damages." (*Leatherman Tool Group, Inc. v. Cooper Industries, Inc.* (9th Cir. Dec. 17, 1999, Nos. 98-35147, 98-35415) 1999 U.S. App. Lexis 33657, at *5; copy attached as ex. B.)

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[1] The document is also available at http://supreme.lp.findlaw.com/supreme court/docket/2000/febdocket.html #9902035.

The present case is nothing like *Cooper*. Here, this court did not apply the "abuse of discretion" standard; rather, it independently concluded that "the record reflects the present award is permissible under both state and federal law." (Typed opn. at p. 23.) In other words, this court applied the de novo standard that petitioner is advancing in *Cooper*. (*See Cooper*, brief for petitioner at pp. 12-23.)

Cooper will have no effect on this case. If the United States Supreme Court adopts the de novo standard, this court has already complied with it. If the high court adopts the abuse of discretion standard, National Union received a more thorough review than that to which it was entitled, and cannot complain. No matter how *Cooper* is decided, the present case will not be reversed.

National Union also forgets that the trial judge in this case painstakingly reviewed its constitutional arguments and then dramatically reduced the jury's punitive damages verdict. (C.T. 4824-4829.) The trial court reduced the punitive damages verdict by a full 83 percent despite its finding that National Union "does not contend, nor can it, that it did not have fair notice that the breach of the covenant of good faith and fair dealing could result in the imposition of substantial punitive damages under the common law." (C.T. 4828.)

National Union failed to convince the jury that its witnesses were telling the truth, it failed to convince the trial court that it had not engaged in serious wrongdoing, it failed to convince this Court that the record did not support the award, and it failed to convince the California Supreme Court to hear this case. There is no reason to

believe the United States Supreme Court would view this case any differently.

For this reason also, National Union's motion should be denied.

III

National Union Has Failed to Establish Irreparable Harm.

To justify a stay, National Union is also required to demonstrate "a likelihood of irreparable harm, assuming the correctness of [National Union's] position, if the judgment is not stayed." (*Packwood, supra,* 510 U.S. at p. 1319.)

Rather than try to establish irreparable harm, National Union blithely says Textron will not suffer any prejudice from issuance of a stay. (Motion at p. 4.) National Union's argument shows a serious misunderstanding of the showing that would have been required to justify any eleventh hour stay. To justify a stay, National Union would have to show that it would be irreparably harmed in the absence of a stay.

National Union has not attempted to establish any irreparable harm because it cannot do so. National Union owes a money judgment, pure and simple. Even in the unlikely event that the United States Supreme Court would grant certiorari *and* reverse the judgment, National Union has not demonstrated that Textron would defy court orders and not return the money. National Union has not and cannot show irreparable harm. For this additional reason, National Union's motion should be denied.

CONCLUSION

National Union's motion fails to address, much less establish, the criteria that would be needed to justify consideration of a stay request.

National Union is not entitled to a stay or any further delay. Textron respectfully urges this court to deny National Union's motion and issue the remittitur forthwith.

MARCUS M. KAUFMAN

STEPHAN, ORINGHER, RICHMAN & THEODORA, P.C.
Robert M. Dato

Attorneys for Plaintiff and Appellant
TEXTRON FINANCIAL CORPORATION

PROOF OF SERVICE

(Code Civ. Proc., § 1013a, subd. (3))

I am employed in the county of Orange, State of California. I am over the age of 18 years and not a party to this action; my business address is 535 Anton Boulevard, Suite 800, Costa Mesa, California 92626.

On May 9, 2001, I served the Opposition to Motion to Stay Issuance of Remittitur on the interested parties in this action by placing true copies enclosed in sealed envelopes addressed as follows:

Peter Abrahams
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15760 Ventura Blvd., 18th Floor
Encino, CA 91436-3000
(Attys. for National Union)

Court of Appeal
Fourth District, Division Three
925 N. Spurgeon Street
Santa Ana, CA 92701
(Original and three copies
by hand delivery)

R. Gaylord Smith
LEWIS, D'AMATO ET AL.
650 Town Center Dr., Suite 1400
Costa Mesa, CA 92626-1925
(Attys. for National Union)

I am familiar with the business practice at my place of business for collection and processing of correspondence for mailing with the United States Postal Service. Correspondence so collected and processed is deposited with the United States Postal Service that same day in the ordinary course of business.

I declare under the penalty of perjury under the laws of the State of California that the above is true and correct.

Executed on May 9, 2001, at Costa Mesa, California.

_____
Raquel Moreno

IN THE

COURT OF APPEAL OF THE STATE OF CALIFORNIA

FOURTH APPELLATE DISTRICT

DIVISION THREE

TEXTRON FINANCIAL CORPORATION, Plaintiff and Appellant, v. NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PENNSYLVANIA et al., Defendants and Appellants.	G020323 (Super. Ct. No. 734096) ORDER (Filed May 11, 2001)

Appellant National Union Fire Insurance Company of Pittsburgh, Pennsylvania, filed a motion to stay issuance of the remittitur to allow it time to file a petition for a writ of certiorari with the United States Supreme Court. (See Cal. Rules of Court, rule 25(c).) Having read and considered the motion and opposition thereto, the motion is DENIED.

/s/ Sills, P.J.
SILLS, P.J.

STATUTORY PROVISIONS INVOLVED

California Rules of Court, Rule 29(b):

As a matter of policy, on petition for review the Supreme Court normally will not consider:

> (1) any issue that could have been but was not timely raised in the briefs filed in the Court of Appeal;
>
> (2) any issue or any material fact that was omitted from or misstated in the opinion of the Court of Appeal, unless the omission or misstatement was called to the attention of the Court of Appeal in a petition for rehearing. All other issues and facts may be presented in the petition for review without the necessity of filing a petition for rehearing.

California Civil Code § 3294, subdivisions (a) & (c):

(a) In an action for the breach of an obligation not arising from contract, where it is proven by clear and convincing evidence that the defendant has been guilty of oppression, fraud, or malice, the plaintiff in addition to the actual damages, may recover damages for the sake of example and by way of punishing the defendant.

* * *

(c) As used in this section, the following definitions shall apply:

> (1) "Malice" means conduct which is intended by the defendant to cause injury to the plaintiff or despicable conduct which is carried on by the

defendant with a willful and conscious disregard of the rights or safety of others.

(2) "Oppression" means despicable conduct that subjects a person to cruel and unjust hardship in conscious disregard of that person's rights.

(3) "Fraud" means an intentional misrepresentation, deceit, or concealment of a material fact known to the defendant with the intention on the part of the defendant of thereby depriving a person of property or legal rights or otherwise causing injury.

California Civil Code § 3295, subdivision (d):

(d) The court shall, on application of any defendant, preclude the admission of evidence of that defendant's profits or financial condition until after the trier of fact returns a verdict for plaintiff awarding actual damages and finds that a defendant is guilty of malice, oppression, or fraud in accordance with Section 3294. Evidence of profit and financial condition shall be admissible only as to the defendant or defendants found to be liable to the plaintiff and to be guilty of malice, oppression, or fraud. Evidence of profit and financial condition shall be presented to the same trier of fact that found for the plaintiff and found one or more defendants guilty of malice, oppression, or fraud.

California Civil Code § 3296:

(a) Whenever a judgment for punitive damages is entered against an insurer or health care service plan licensed pursuant to Chapter 22 (commencing with Section 1340) of Division 2 of the Health and Safety Code, the plaintiff in the action shall, within 10 days of entry of judgment, provide all of the following to the Commissioner of the Department of Insurance or the Director of the Department of Management Health Care, whichever commissioner has regulatory jurisdiction over the insurer or health care service plan:

(1) A copy of the judgment.

(2) A brief recitation of the facts of the case.

(3) Copies of relevant pleadings, as determined by the plaintiff.

(b) The willful failure to comply with this section may, at the discretion of the trial court, result in the imposition of sanctions against the plaintiff or his or her attorney.

(c) This section shall apply to all judgments entered on or after January 1, 1995.

(d) "Insurer," for purposes of this section, means any person or entity transacting any of the classes of insurance described in Chapter 1 (commencing with Section 100) of Part 1 of Division 1 of the Insurance Code.

California Penal Code § 550, subdivisions (b) & (c) (pertinent parts):

(b) It is unlawful to do, or to knowingly assist or conspire with any person to do, any of the following:

(1) Present or cause to be presented any written or oral statement as part of, or in support of or opposition to, a claim for payment or other benefit pursuant to an insurance policy, knowing that the statement contains any false or misleading information concerning any material fact.

(2) Prepare or make any written or oral statement that is intended to be presented to any insurer or any insurance claimant in connection with, or in support of or opposition to, any claim or payment or other benefit pursuant to an insurance policy, knowing that the statement contains any false or misleading information concerning any material fact.

(3) Conceal, or knowingly fail to disclose the occurrence of, an event that affects any person's initial or continued right to any insurance benefit or payment, or the amount of any benefit or payment to which the person is entitled.

* * *

(c)(3) Every person who violates paragraph (1), (2), (3) or (4) of subdivision (b) shall be punished by imprisonment in the state prison for two, three, or five years, or by a fine not exceeding fifty thousand dollars ($50,000), unless the value of the fraud exceeds fifty thousand dollars ($50,000), in which event the fine may not exceed double the value of the fraud, or by both that imprisonment and fine; or by imprisonment in a county jail not to exceed one year, or by a fine of not more than one thousand five

hundred dollars ($1,500), or by both that imprisonment and fine.

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15 U.S.C. § 1011:

Congress hereby declares that the continued regulation and taxation by the several States of the business of insurance is in the public interest, and that silence on the part of the Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several States.